REPUBLIC OF SLOVENIA
**FISCAL COUNCIL**

# The Assessment of budget documents for the 2021–2024 period

## (the assessment of the proposed Ordinance amending the Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period, the proposed Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period, and the draft Stability Programme 2021)

April 2021

Document No.: 30-3/2021/4

The assessment was made on the basis of the proposed amended Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period, the proposed Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period, and the draft Stability Programme 2021. Some forecast values in EUR were calculated indirectly from rounded shares of GDP shown in the Stability Programme 2021, which is why certain items do not sum up. Data available up to and including 14 April 2021 were used.

## TABLE OF CONTENTS:

## FIGURES:



## TABLES:

## EXECUTIVE SUMMARY

In the current uncertain climate, deviations from the medium-term balance are permitted due to exceptional circumstances in accordance with the Fiscal Rule Act, provided that this does not endanger fiscal sustainability in the medium term. The projections for 2021 and 2022 in the submitted budget documents indicate an expansionary fiscal policy that is countercyclical according to currently available forecasts; however, certain measures that have already been adopted are also structural and will therefore burden future public finances. The anticipated worsening of the structural position in these two years is mostly the result of the increased investment activity of the state, which is to be financed only to a lesser extent by European funds. In the 2023–2024 period, the anticipated decrease in the headline deficit indicates a slightly more restrictive fiscal policy, which would be appropriate considering the current macroeconomic projections. In addition, for a certain part of expenditure, the projection is not realistic and its realisation would require the adoption of measures that are not presented in the submitted documents. The assumptions regarding the ability to obtain European funds are also quite optimistic. Up to and including 2024, more than three quarters of all grants available in the next ten years are expected to be spent. An increase in debt in a crisis is largely understandable, but the anticipated high nominal growth in debt would have to be efficiently used to strengthen economic potential. In this regard, it should be noted that, if debt is persistently high, this could additionally endanger fiscal sustainability in the long term, particularly considering the public finance challenges of population ageing and possible new shocks.

In October 2020 and April 2021, the Fiscal Council found that, according to the data available when the assessments for 2021 and 2022 were made, at least one of the two conditions laid down in the Fiscal Rule Act for invoking exceptional circumstances was met. The Fiscal Council stressed that these findings were not fixed and that it would regularly verify them each time budget documents are submitted. At the time of the preparation of the assessment of budget documents, the European Commission did not yet adopt the final decision to extend the activation of the general escape clause into 2022. It will adopt the decision on the basis of its own updated forecasts, taking into account the expected level of economic activity compared to pre-crisis levels. In its recommendations, the European Commission also mentions the possibility of differentiation in fiscal guidance to Member States after 2022, also based on long-term fiscal sustainability risks.

The submitted budget documents should outline the basic fiscal policy orientations for the following years and transparently show that their content is in compliance with the national Recovery and Resilience Plan. Despite the uncertainties about the future course of the epidemic, the harmonised documents should credibly indicate the path of public finances in the post-crisis period, supported with a significant part of the funding coming from the existing and new European mechanisms. Only on this basis, it would be possible to appropriately evaluate the projections of fiscal aggregates.

The fiscal projections in the proposed budget documents continue to be significantly marked by the impacts of measures to limit the consequences of the COVID-19 epidemic. In addition to the uncertainty about the future use of funding from European mechanisms, these measures are a major risk to macroeconomic and fiscal projections. The latter are based on the projected recovery in economic activity, whereby the pre-crisis level of GDP is expected to be reached in 2022. The current assessments of the cyclical position indicate a gradual closing of the output gap and a fairly rapid transition to a normal economic cycle.

The Fiscal Council verifies the compliance of submitted budget documents with fiscal rules for parts of general government accounts that are not directly related to the crisis and must be consistent with the position of the economy in the cycle. The Fiscal Council already advocated this approach when it assessed the fulfilment of conditions for invoking exceptional circumstances in March 2020.

The exclusion of the direct impact of COVID-related measures suggests a rather different picture from that presented in the headline projections. According to the headline projections, the total general government deficit in 2021 is expected to remain at the same level as last year despite the economic recovery. Without considering the direct impact of COVID-related measures, the state of public finances is expected to worsen considerably this year due to the high structural primary deficit. In addition to the projected significant growth in investment expenditure, to which European funds will contribute less than a fifth, this will be largely due to the adoption of discretionary measures which are not related to the epidemic and will impact the structural position of public finances in the following years. In the 2022–2024 period, without the impact of COVID-related measures and due to the positive contribution of the economic cycle, the deficit is expected to be gradually reduced. The Fiscal Council assesses that the projections are not entirely realistic, as their realisation would require the adoption of measures that are not outlined in the submitted documents.

These findings are also reflected in the assessment of the compliance of budget documents (the Stability Programme 2021 and the two ordinance proposals) with fiscal rules. Most indicators suggest non-compliance with fiscal rules. Deviations will be particularly significant in 2021 and 2022, when, in accordance with the European Commission's guidance, on the basis of invoking exceptional circumstances, deviations are possible only in the case of measures directly related to the crisis. In 2023 and 2024 when the conditions for invoking exceptional circumstances are expected to no longer be met, deviations from fiscal rules will be considerably smaller. However, this finding is largely related to the aforementioned doubts as to how realistic the fiscal projections for these two years really are. Assessments of compliance with fiscal rules are based on a wide range of indicators; nonetheless, due to the aforementioned uncertainties, it is necessary to take them into account with a certain degree of caution.

The Fiscal Council assesses that the measures adopted to limit the consequences of the epidemic were appropriately designed and comparable in extent to those in other EU Member States. However, in addition to the measures to limit the consequences of the epidemic, measures have been recently adopted or announced which, in the opinion of the Fiscal Council, worsen the structural position of public finances and reduce the room for manoeuvre for the implementation of fiscal policy in the years to come. Such measures are particularly inappropriate in the given situation, and the Fiscal Council calls on all stakeholders to refrain from adopting further structural measures that would additionally reduce this fiscal space. As part of measures to overcome the crisis, more targeted measures would need to be adopted, to a greater extent, to address economic agents that are actually entitled to assistance or incentives. The Fiscal Council believes that, in the current situation, it would be necessary to strengthen Slovenia's long-term economic position by taking economic policy measures and more appropriately address other challenges, including challenges in the area of social security that endanger fiscal sustainability in the long-term.

The fiscal policy should be particularly prudent in favourable financing conditions, which are mostly the result of a highly stimulative monetary policy. In the crisis, the debt again increased significantly and is expected to increase in nominal terms or remain at the level of 80% of GDP in the projection period.

The relatively high level of debt due to increased sensitivity to changes in the variables that define debt may represent an additional source of instability in the conduct of economic policy in the upcoming years and does not provide fiscal space to deal with future shocks, which are more frequent due to greater global connectedness, and the challenges of long-term fiscal sustainability. According to the latest available forecasts, Slovenia will record one of the largest deficits at the end of the forecast period in 2024 compared to other EU Member States despite the anticipated gradual reduction in the deficit, which, however, is not based on entirely realistic assumptions. Accordingly, considering the possible withdrawal of monetary policy support measures over a longer period and in the light of the challenges posed by the expected cost of ageing to long-term fiscal sustainability, there may be a higher risk of an increase in borrowing costs.

## Legislative framework

On 9 April 2021, the Government of the Republic of Slovenia submitted the proposed amended Ordinance on the framework for the preparation of the general government budget for the 2020–2022 period (hereinafter: the Framework Proposal 20_22) and the proposed Ordinance on the framework for the preparation of the general government budget for the 2022–2024 period (hereinafter: the Framework Proposal 22_24) and the draft Stability Programme 2021 (hereinafter: SP 21) to the Fiscal Council for the assessment of compliance with fiscal rules. On 14 April 2021, the Ministry of Finance submitted the assumptions for the calculation of the expenditure rule in accordance with the European legislation, which, among other things, include the projections for the use of EU funds.

Pursuant to paragraph two of Article 6 of the Fiscal Rule Act (the ZFisP), the Government must submit the Framework Proposal together with the draft Stability Programme to the National Assembly and the Fiscal Council no later than 20 days before the end of the period for submitting the Stability Programme to the European Commission (hereinafter: the EC), which is at the end of April. Pursuant to paragraph one of Article 9f of the Public Finance Act (the ZJF), the Fiscal Council must submit its assessment of the Framework Proposal and the draft Stability Programme to the Government of the Republic of Slovenia and to the National Assembly within seven days of their receipt. Pursuant to Article 6 of the ZFisP, the Framework is adopted by the National Assembly of the Republic of Slovenia upon the proposal of the Government of the Republic of Slovenia no later than five days before the deadline for submitting the Stability Programme to the EC.

Pursuant to paragraph two of Article 6 and point 1 of paragraph two and point 1 of paragraph three of Article 7 of the ZFisP, the Fiscal Council assesses the sustainability and compliance of the fiscal policy with fiscal rules on the basis of the draft Stability Programme. Article 3 of the ZFisP stipulates the method for determining the ceiling for general government expenditure in relation to the economy's position in the cycle. The Fiscal Council assesses the appropriateness of the proposed amendments to the Framework in accordance with point 5 of paragraph two and point 4 of paragraph three of Article 7 of the ZFisP.

On 17 March 2020, the Fiscal Council assessed the announcement of the epidemic in Slovenia as an unusual event, which, under Article 12 of the ZFisP, makes it possible to invoke exceptional circumstances for measures aimed at mitigating the consequences of such an event, and thus to temporarily deviate from the medium-term fiscal balance.[1] The Fiscal Council confirmed this assessment for 2021 in October 2020[2] when it assessed budget documents and in April 2021 for 2022[3]. In both cases, the assessment of the existence of exceptional circumstances was requested by the Government. The permitted temporary deviation from the medium-term balance also means that the Fiscal Council assesses the compliance of fiscal trends presented in the two Framework Proposals or in the SP 21 with fiscal rules in accordance with point 8 of paragraph two and point 5 of paragraph three of Article 7 of the ZFisP. The Fiscal Council examines, in particular, whether the part of expenditure determined in the Framework Proposals is adequate in relation to the cyclical position of the economy, while it does not assess the appropriateness of expenditures related to mitigating the consequences of the epidemic.

[1] https://www.fs-rs.si/wp-content/uploads/2020/03/Assessment_extraordinary-event-under-the-Fiscal-Rule-Act-_March-2020.pdf

[2] https://www.fs-rs.si/assessment-by-the-fiscal-council-fulfilment-of-conditions-for-the-enforcement-of-exceptional-circumstances/

[3] https://www.fs-rs.si/assessment-by-the-fiscal-council-fulfilment-of-conditions-for-the-existence-of-exceptional-circumstances-in-2022/

## 1. Macroeconomic conditions and forecasts

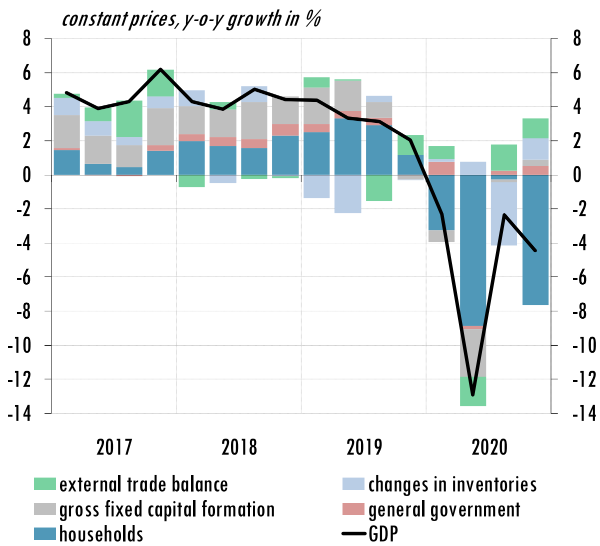
**Key findings**

- Last year's fall in GDP (–5.5 %) was smaller than projected in autumn forecasts, which was mostly due to part of the economy successfully adapting to restrictive measures during the second wave of the epidemic.
- Upon the assumption that the epidemic will be contained in the first half of 2021, economic activity is expected to recover this year and reach the pre-crisis level during the next year. In 2023 and 2024, recovery is expected to continue at a slightly slower pace.
- After decreasing considerably last year, key tax bases in the 2021–2024 period are expected to increase similarly to or slightly less than they did in the years before the crisis.
- Given the increased uncertainty, assessments of the cyclical position of the economy are even more uncertain and show that the negative output gap will gradually close in the SP 21 projection period and will become positive in 2024 .

### 1.1 An overview of macroeconomic conditions and forecasts

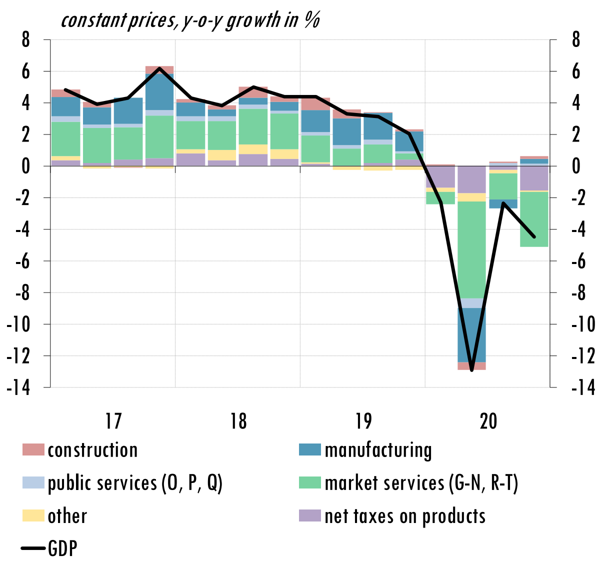
**Last year's fall in GDP was smaller than expected in the autumn, which was mostly due to part of the economy successfully adapting to restrictive measures during the second wave of the epidemic.** In 2020, the GDP decreased by 5.5% in real terms, and the nominal fall was 4.3%. Because of the nature of the restrictive measures to curb the epidemic, the total fall was mostly due to the fall in activity in the service sector, which was reflected in a 9.7% decrease in private consumption. Increased uncertainty and deterioration in business indicators contributed to a decline in investments in equipment and machinery, while construction investment, after increasing in the second half of the year, remained at the same level as before the epidemic. The volume of foreign trade decreased by

**Figure 1.1: Gross domestic product - expenditure structure**




*Source: SORS, FC calculations.*

**Figure 1.2: Gross domestic product - production structure**

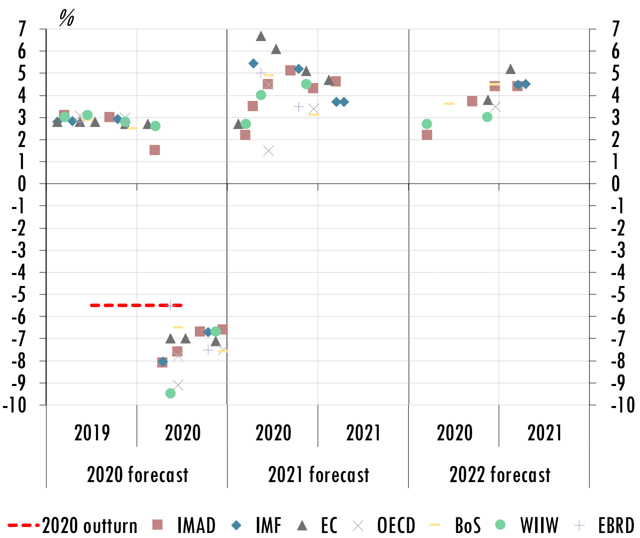



*Sources: SORS, FC calculations.*

around 7% on an annual basis, but it increased in the second half of the year as foreign demand recovered and companies adapted to the restrictive measures to contain the epidemic. The latter holds true particularly for trade in goods, while in the last quarter, trade in services lagged behind the level recorded the year before by around 15%. Government consumption was the only aggregate of demand which increased last year, namely to a similar extent as the year before.

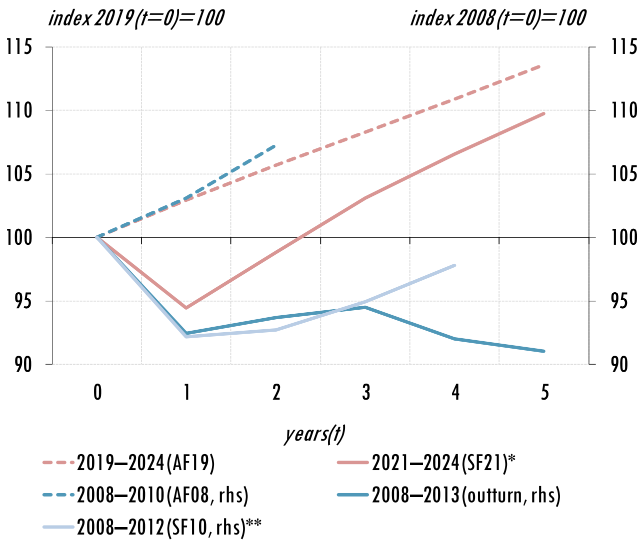
**Upon the assumption that the epidemic will be contained in the first half of 2021, economic activity is expected to increase by 4.5% on average this year and the next year and reach the pre-crisis level during the next year.** IMAD[4] expects that all aggregates of demand will increase in 2021 and 2022. With the expected further strengthening of foreign demand and the favourable business and competitive position of companies in manufacturing, the recovery is expected to be largely based on foreign trade. The improvement in this area will also affect the recovery of investment in equipment and machinery, while growth in construction investment, which began in the second half of last year, is expected to continue also due to the expected significant strengthening in public investment. Activity in manufacturing, construction and related service activities is expected to reach pre-crisis levels in 2021. Activity growth in service activities where there is more personal contact, such as trade, catering, entertainment and recreational activities, and the related private consumption growth are expected to be relatively high, but due to a significant decline last year, pre-crisis levels are expected to be reached during 2022 or even later. In this respect, IMAD does not expect lasting negative consequences due to the restrictive measures during the epidemic. This also applies to the situation in the labour market, where, assuming that measures to preserve jobs will gradually be withdrawn, the number of unemployed persons is expected to gradually decline and reach the pre-epidemic level in 2024. The registered unemployment rate is expected to reach this level the year before. In 2023 and 2024, economic growth is expected to slow down slightly and approach the estimated potential growth (around 3%). With the recovery of economic activity, price growth is expected to gradually strengthen, at first mostly due to higher food and energy prices, and core inflation is expected to be higher (averaging 2%) in 2022 and 2023 due to higher prices of services and non-energy goods.

**Figure 1.3: Changes to 2020-2022 real GDP growth forecasts**




*Sources: BoS, EBRD, EC, IMF, OECD, SORS, IMAD, WIIW.*

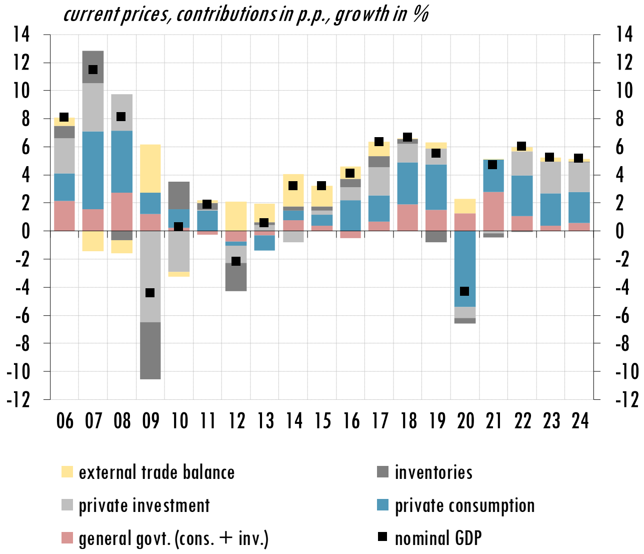
**Figure 1.4: Real GDP 2019–2024 and 2008–2013**




*Source: SORS, IMAD, FC calculations. Notes: * for 2019-2020 outturn, ** for 2008-2009 outturn published at the time.*

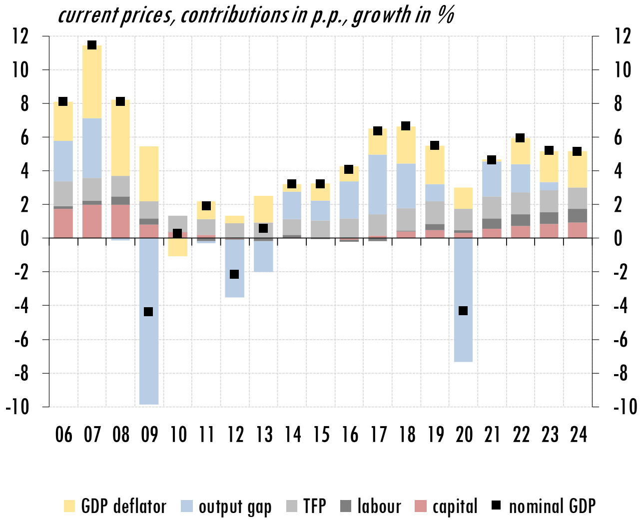
[4] IMAD (2021).

**Figure 1.5: Demand factors and GDP**




*Source: SORS, MoF, IMAD, FC calculations.*

**Figure 1.6: Supply factors and GDP**




*Source: SORS, IMAD, FC calculations.*

**In the SP 21 projection period, nominal economic growth is expected to be similar to the average recorded in the period from the recovery of the banking system to the epidemic, with a slightly different structure.** With the projected closing of the negative output gap, the cyclical momentum will make a key contribution to growth this year and next year, but given the expected slowdown in economic growth in 2023 and 2024, it will wear off. From next year, higher inflation will significantly contribute to nominal GDP growth, and its average contribution in the SP 21 projection period will be similar to the average contribution recorded in the 2015–2019 period. The contribution of total factor productivity will remain significant. Compared to the period before the crisis, the contribution of capital and labour will increase significantly. The expected higher contribution of capital is related to the forecast of relatively high multi-annual investment growth, and the higher contribution of labour is related to the expected increase in the participation rate and the assumption of net inflow of labour force.

**After decreasing considerably last year, key tax bases[5] in the 2021–2024 period are expected to increase similarly to or slightly less than they did in the years before the crisis.** Annual GDP growth in current prices is expected to reach 5.2% on average in the SP 21 projection period, which corresponds to the average growth in the 2015–2019 period. From 2020 to 2024, nominal GDP is expected to rise by EUR 10.5 billion in total. Growth in domestic consumption in current prices is expected to be slightly higher (5.6% on average). The only tax base that did not decrease last year is the compensation of employees. Its average growth in the SP 21 projection period (4.0%) will be a third lower than before the crisis, mainly due to the projected lower employment growth in the projection period. Intervention measures and the related methodological peculiarities in the calculation of average gross salaries have an important impact on the tax base for the calculation of revenue from social security contributions.[6] Accordingly, the calculation of the actual tax base slightly deviates from the usual calculation, particularly in 2021. Growth in the net operating surplus is expected to halve in the 2021–2024 period, largely due to the projected further decline this year.

[5] Tax bases as listed in the manual for the preparation of general government sector revenue projections. Available at https://www.gov.si/assets/ministrstva/MF/ekonomska-in-fiskalna-poltika/Blagajne-JF/Pirocnik-za-napovedovanje-prihodkov-2019.pdf (Only in Slovene).

[6] For more information, see Box 1 in IMAD (2021).

### 1.2 Assessment of the cyclical position of the economy

**Due to the extent of the current crisis, its heterogeneous impact on economic activity and, in particular, its possible long-term consequences, the assessments of the cyclical position of the economy are even more uncertain.**[7] In addition to the demand shock, this epidemic has been accompanied by a strong supply shock, which could affect changes in the response and structure of production factors and the changed level and dynamics of the economy's potential. This impact largely depends on the structure and flexibility of the economy and on the economic policy response[8], and it will probably be only possible to estimate its extent with a few years' delay. Uncertainties regarding future economic trends indicate the need for caution in interpreting point estimates of the output gap[9] and the need to consider an additional set of indicators when assessing the cyclical position.

**On the basis of available estimates, the Fiscal Council assesses that the negative output gap will gradually close in the SP 21 projection period and become positive at the end of the period in 2024.** Given the currently available estimates, the negative output gap[10] is expected to gradually close in the following years, as GDP growth is expected to surpass the currently estimated growth of economic potential. Considering the average of the currently available calculations, the output gap is expected to exceed the limit of -1.5% next year, which, according to the methodology of the European Commission, delimits 'bad times' from the 'normal functioning of the economy'.[11] The relatively rapid closing of the negative output gap reflects the expected recovery of the economy after the shock in 2020, which, according to available forecasts, is not expected to have lasting negative consequences for economic activity. In this regard, it should be noted that the range of available output gap calculations for the 2020–2022 period in the current situation of increased uncertainty is much larger than usual (see Figure 1.7).

**Having examined a wide range of indicators monitored by the Fiscal Council in order to determine the cyclical position of the economy, the Fiscal Council estimates that, following a significant shock in the first half of 2020, the economy is recovering amid great uncertainty.** After a rapid but partial recovery of economic activity in the second half of last year, most of the indicators available at the beginning of 2021 suggest that the recovery is continuing. However, the persistent high level of uncertainty could slow down the expected recovery during this year, particularly if the epidemic situation continues to deteriorate. After a steep fall, particularly in the first half of 2020, the values of most indicators are gradually returning to their long-term average levels, but they still have a way to go. This primarily applies to indicators of economic growth, employment, economic sentiment and production capacity utilisation. Measures to preserve jobs made a key contribution to

[7] See Box 1.1 in Fiscal Council (2020a) for an analysis of the uncertainty of estimates of the output gap during the current crisis in Slovenia.

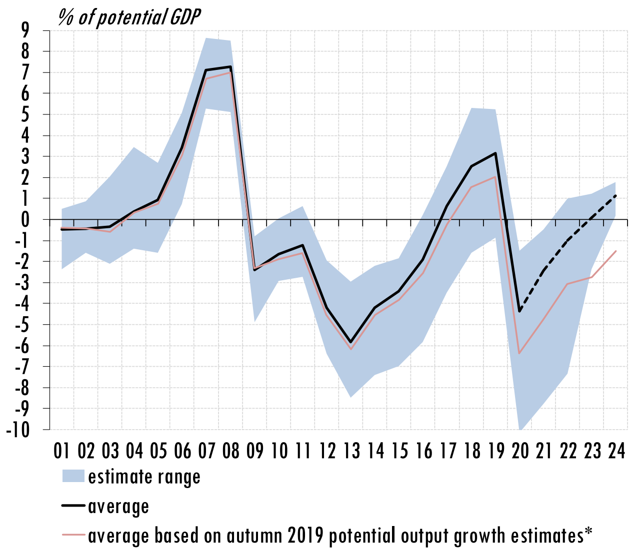
[8] European Commission (2009).

[9] The output gap represents the difference between the actual economic activity (in terms of GDP) and the estimated economic activity made possible by the economy's available capacities, without causing inflationary pressures (potential output). In its output gap estimates, the Fiscal Council uses the calculations of five institutions and four statistical methods. For more details on the output gap calculations used by the Fiscal Council, see Fiscal Council (2018a, pp. 23–26). In the current assessment of budget documents, the Fiscal Council attempts to address the increased uncertainty regarding output gap estimates, which technically usually reflect the choice of methodology, but this time, in terms of content, they mainly reflect uncertainty relating to the nature of the shock and its long-term consequences, by using alternative output gap estimates. These were determined on the basis of the available pre-crisis estimates of growth in economic potential (by individual statistical methods or institutions that are usually covered by the estimate) and current economic growth forecasts (see also Box 4.2 and Table 5.2). In the current uncertain climate, this method of assessment of the cyclical position of the economy complements the method used by the Fiscal Council in normal circumstances.

[10] Determining the stage of the economic cycle has an impact on the choice of the ZFisP formula that is used to determine the ceiling for general government expenditure (see Chapter 4).

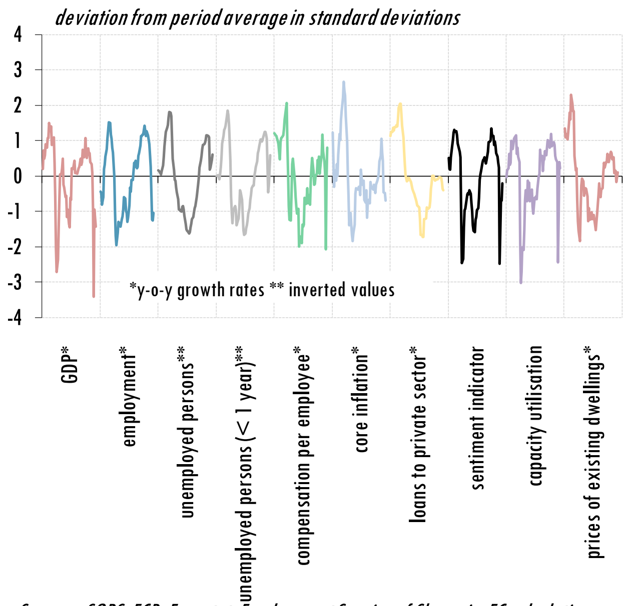
[11] The EC defines normal times as a period in which the output gap estimate is between −1.5% and 1.5% of potential GDP, while bad times are defined as a period in which the output gap estimate is between −1.5% and −3% of potential GDP (European Commission (2019, pp. 16–17). The amount of general government debt, the assessment of its sustainability and the requirements for structural efforts or the achievement of the medium-term fiscal objective as set by the EC depend on the definition of the economic cycle.

**Figure 1.7: Output gap estimates**




*Source: EC, FC, IMF, MoF, OECD, SORS, IMAD. *Based on output gap estimated on the basis of potential output growth estimates from autumn 2019 and current GDP forecast (see also Box 4.2 and note under Table 5.2.).*

**Figure 1.8: Indicators of economic cycle dynamics 2005-2021**




*Sources: SORS, ECB, Eurostat, Employment Service of Slovenia, FC calculations.*

unemployment indicators being above their long-term average at the end of 2020. The limitations on the supply side that were expected to arise in the labour market before the crisis have been reduced due to the restrictive measures to contain the epidemic and a severe economic downturn. According to the spring forecast by IMAD, the average wage growth in the period of gradual economic recovery in the following years is expected to be similar to the average growth in the 2016–2019 period. Inflation is expected to remain moderate, while the surplus in the current account of the balance of payments is expected to remain high, along with high private sector savings in the coming years. According to the currently available indicators, the crisis had the least impact on real estate markets. Real estate price growth has slowed down during the crisis, but it remained around its long-term average in the second half of 2020. In the second half of the year, the epidemic began to negatively affect financial markets. Growth in loans to the private sector, which had already been slightly below the long-term average before the crisis, further deviated from this average.

## 1.3 Comparison of macroeconomic scenarios of the Draft Budgetary Plan 2021 and the Stability Programme 2021

**Differences between the macroeconomic scenarios of the Draft Budgetary Plan 2021[12] and the SP 21[13] respectively are mostly due to different assumptions about the beginning of the economic recovery.** Last year's autumn forecast by IMAD was based on the assumption that it would not be necessary to again take restrictive measures to contain the epidemic that have a negative impact on economic activity. Despite the second wave of the epidemic, the decline in economic activity last year was smaller than projected in the autumn forecast, mainly due to better trends in exports and investment activity. Considering the higher base effect and, in particular, the continued negative impact of restrictive measures to contain the epidemic in the first half of this year, economic growth is

[12] The fiscal projections of the Draft Budgetary Plan 2021 (October 2020) were based on the Autumn Forecast of Economic Trends 2020 by IMAD (September 2020).

[13] The fiscal projections of the SP 21 (April 2021) are based on the Spring Forecast of Economic Trends 2021 by IMAD (March 2021).

**Table 1.1: IMAD forecasts**

| | 2020 | | | 2021 | | | 2022 | | | 2023 | | | 2024 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep.20 | SORS | diff. | Sep.20 | Mar.21 | diff. | Sep.20 | Mar.21 | diff. | Sep.20 | Mar.21 | diff. | Sep.20 | Mar.21 | diff. |
| Real GDP, change in % | -6.7 | -5.5 | *1.2* | 5.1 | 4.6 | *-0.5* | 3.7 | 4.4 | *0.7* | 2.8 | 3.3 | *0.5* | 2.7 | 3.0 | *0.3* |
| Nominal GDP, EUR million | 45,769 | 46,297 | *528* | 48,818 | 48,453 | *-366* | 51,630 | 51,345 | *-285* | 54,135 | 54,026 | *-109* | 56,764 | 56,801 | *38* |
| Comp. of employees, EUR million | 24,808 | 24,858 | *50* | 25,445 | 25,793 | *347* | 26,514 | 26,673 | *158* | 27,649 | 27,782 | *133* | 28,902 | 29,052 | *151* |
| Inflation-average, % | 0.3 | -0.1 | *-0.4* | 1.6 | 0.8 | *-0.8* | 1.9 | 1.2 | *-0.7* | 1.8 | 1.7 | *-0.1* | 2.0 | 2.1 | *0.1* |

*Source: IMAD, FC calculations.*

expected to be lower this year than projected in autumn forecasts and higher next year. The change in the expected dynamics of the economic recovery has consequences for tax base projections. GDP in current prices is not expected to be higher than projected in the autumn forecast until 2024. Domestic consumption in current prices is expected to be lower than projected last autumn due to the lasting negative impact of the epidemic throughout the SP 21 projection period. The same applies to the expected trends in the net operating surplus as the tax base for corporate income or profit tax. According to autumn forecasts, the surplus is expected to be EUR 1 billion lower annually on average in the 2022–2024 period. On the other hand, the trend in the compensation of employees was more favourable than projected last autumn. In our assessment, this is mostly due to the assumption of the continued validity of measures to preserve jobs, which should prevent the lasting negative consequences of the epidemic in the labour market.

## 2. Fiscal conditions and forecasts

**Key findings**

- In 2020 the general government deficit (−8.4% BDP) was to a large extent directly and indirectly due to the epidemic. Without the direct impact of COVID-related measures, which is estimated at 6.0% of GDP by the Ministry of Finance under the ESA methodology, the deficit would have been −2.3% of GDP.
- In 2021 the total general government deficit is expected to remain at the same level as last year. Without taking into account the direct impact of COVID-related measures, the state of public finances is expected to worsen considerably due to the worsening of the structural primary balance, with a deficit of –6.2% of GDP. The worsening will be, to a large extent, due to both the projected significant increase in investment, which is to be financed only to a small extent by European funds, and the adoption of discretionary measures that were not related to the epidemic.
- In the 2022–2024 period, without considering the impact of COVID-related measures, the state of public finances is expected to gradually improve. The Fiscal Council assesses that SP 21 projections are not entirely realistic and that their realisation requires the adoption of discretionary measures that have not been presented.

### 2.1 Assessment of the projected revenue and expenditure in the Stability Programme 2021[14]

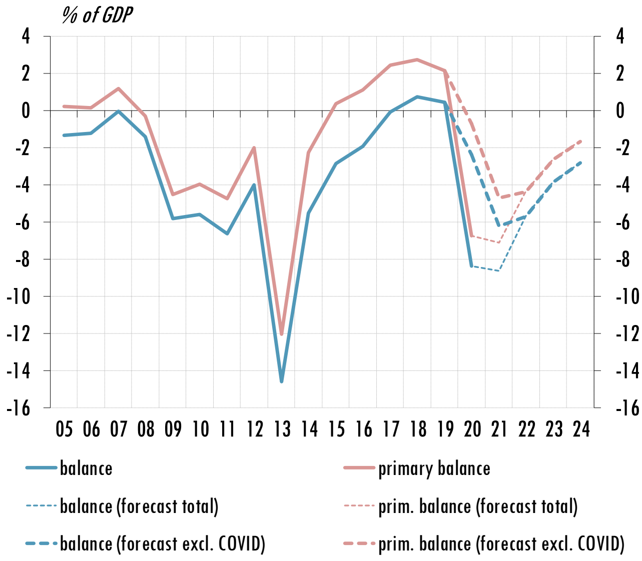
**Last year's general government deficit, which was the second highest to date, was to a large extent directly and indirectly due to the epidemic.** The deficit was EUR –3,868 million or –8.4% of GDP, which is around EUR 300 million less than projected in the Draft Budgetary Plan 2021. According to the ESA methodology[15], the direct impact of measures to limit the consequences of the epidemic was estimated by the Ministry of Finance to be EUR 2,780 million or 6.0% of GDP. Since the onset of the epidemic, the Fiscal Council has been warning, in accordance with the legislation[16], that fiscal trends that are not directly related to measures to mitigate the consequences of the epidemic must not endanger medium-term fiscal balance or sustainability. In line with this orientation, in assessing the fiscal projections submitted by the Government, emphasis is placed on trends where the direct impact of epidemic-related measures is not taken into account. Without this impact, last year's deficit was EUR

[14] The assessment is based on detailed projections under the ESA methodology that are consistent with the projections of the SP 21, including the estimated or projected direct impact of the COVID-related measures that were submitted by the Ministry of Finance to the Fiscal Council together with other budget documents. The Fiscal Council requested detailed projections because it is necessary to clearly differentiate between projected fiscal trends where the direct impact of COVID-related measures is taken into account and those where it is not. Without detailed projections, the assessment of compliance of the submitted budget documents with fiscal rules, which is, among other things, based on the assessment of how realistic projections are, would not be possible in the current circumstances. In addition, in the period of validity of general escape clause, the European Commission also highlights the importance of qualitative indicators in the assessment of budget documents compared to the numerical indicators set out in legislation.

[15] This is an internationally comparable methodology which, in accordance with the ZFisP, is also used in assessments of compliance with fiscal rules and is based on the accrual principle. This means that the transaction is recorded when the obligation or claim occurs. The assessment of the direct impact differs from the assessment of the Fiscal Council in its Monthly Information (see https://www.fs-rs.si/publications/monthly-information/), which is based on the balance of the state budget and the cash flow methodology. This means that the transaction is recorded when it is executed.

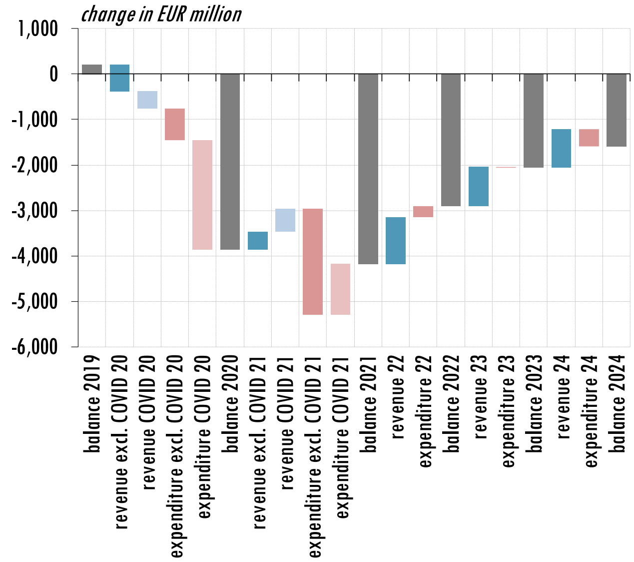
[16] Under paragraph one of Article 12 of the ZFisP, a deviation from the medium-term balance is only permitted provided that it does not endanger fiscal sustainability in the medium term.

**Figure 2.1: Balance and primary balance**




*Source: MoF, SORS, FC calculations.*

**Figure 2.2: Factors of change to general government balance 2019–2024**




*Source: SORS, MoF, FC calculation.*

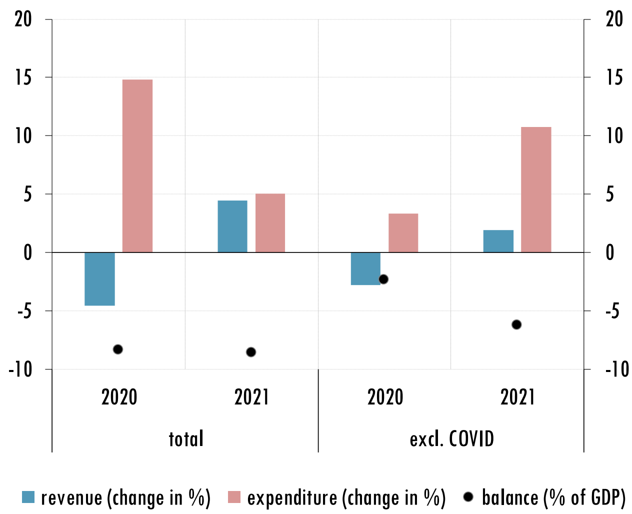
–1,087 million or –2.3% of GDP. Such deficit was primarily a consequence of the indirect impact of the epidemic, when revenue declined due to a decline in economic activity (–2.8%). The decline was primarily due to a fall in revenue from taxes on production and imports, and among all key categories, only revenue from social security contributions was higher than the previous year. Expenditure growth without the direct impact of COVID-related measures (3.4%) was lower than it had been in the two years before the crisis, but it was approximately two times higher than average expenditure growth in the last decade.[17] Considering the assessment of the Ministry of Finance regarding the distribution of the impact of COVID-related measures by aggregates, without that impact, total expenditure growth was largely due to higher expenditure on social benefits, particularly higher expenditure on pensions. To a similar extent, growth was also due to higher expenditure on subsidies[18], and slightly less to higher expenditure on the compensation of employees and other current transfers. Expenditure on interest was the only category that decreased last year, but slightly less than in the two years before the crisis.

**In 2021, the total general government deficit is expected to remain at the same level as last year, and without considering the direct impact of COVID-related measures, the state of public finances is expected to worsen considerably.** This year the total deficit is expected to be EUR –4,181 million (–8.6% of GDP), and without considering the direct impact of COVID-related measures, which is assessed by the Ministry of Finance to be EUR 1,162 million, the deficit is expected to be EUR –3,019 million (–6.2% of GDP). Without the impact of COVID-related measures, this year the deficit is expected to increase by an additional EUR 1,931 million, which, despite the expected increase in revenue, is a much more significant deterioration compared to last year. Considering the projected economic recovery and the related forecasted revenue growth, the cyclical balance, unlike last year, will positively contribute to the change in the nominal balance. However, the primary structural balance will deteriorate significantly. This will also be largely due to the adoption of discretionary

[17] In the 2010–2019 period, the total expenditure growth stood at 1.9% annually on average, and without taking into account capital transfers, which were high mostly in 2013 and 2014 due to bank recovery, the growth totalled 1.6%.

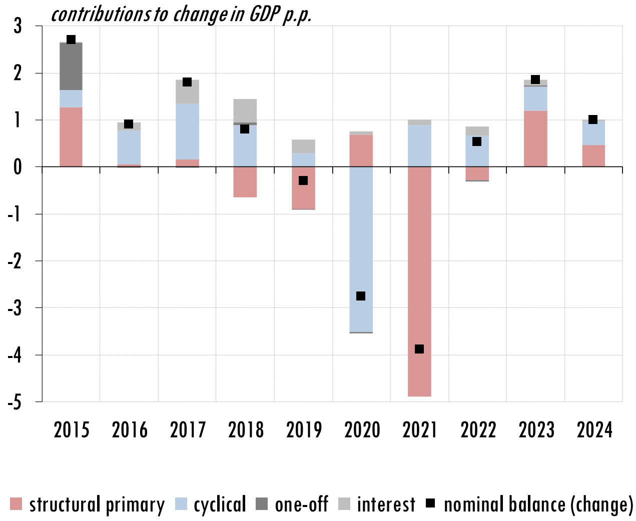
[18] According to the assessment of the Ministry of Finance, in the category of subsidies, in 2020 the impact of COVID-related measures totalled EUR 1,231 million under the ESA methodology. Without considering the impact of measures, the growth in expenditure on subsidies was 70.3% and was by far the highest so far (the highest growth was seen in 2013, when it stood at 15.3%).

**Figure 2.3: General government revenue, expenditure and balance**




*Source: MoF, IMAD, FC calculations.*

**Figure 2.4: Factors of change to nominal general government balance (excluding direct impact of COVID measures)**




*Source: MoF, SORS, FC calculations.*

measures of a structural nature that will negatively affect the balance in the coming years (see Table 2.1). Furthermore, the Fiscal Council assesses that additional measures are announced which, if they are adopted, will further worsen the state of public finances.

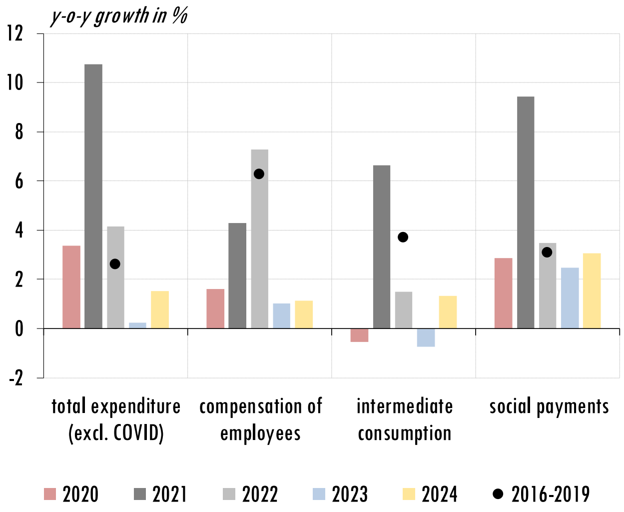
**The key reason for the anticipated worsening of the state of public finances in 2021, without considering the impact of COVID-related measures, is the projected more than 10% growth in expenditure.** Around half of this growth will be due to an almost 60% increase in expenditure on investments, which is expected to reach by far the highest level so far (6.2% of GDP). Although EU funds for financing investments are expected to double compared to last year, they are expected to account for just under a fifth of the projected total growth; accordingly, domestic funds are expected to amount to as much as EUR 890 million out of the total increase of EUR 1,081 million. Considering that the multiannual financial framework for the 2014–2020 period is coming to an end and that funds from the Recovery and Resilience Fund are available, it is recommended that the major part of

**Table 2.1: Estimated effect of selected adopted or announced discretionary measures**

| | estimate of annual effect in EUR milllion |
|---|---:|
| Tax on motor vehicles[1] | 29 |
| Liberalisation of fuel prices[2] | 28-63 |
| Extraordinary increase in pensions December | 115 |
| Art. 21. and 22. ZIUPOPDVE[4] | 110-140 |
| Change in ZPIZ-2[5] | 49 |
| *Social cap[6]* | *115-165* |
| **Total** | **446-561** |

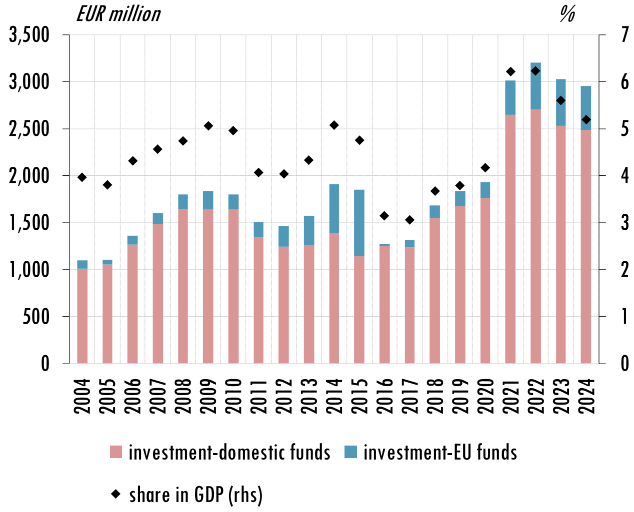
*Source: MoF, Pension and Disability Fund of Slovenia, Financial Administration of Slovenia, FC estimates. Opomba: [1]MoF estimate. [2]MoF estimates the effect after one year at EUR 28 to 32 mio, after five years at EUR 56 to 63 mio. [3]Pension and Disability Fund estimate. [4]According to Pension and Disability Fund estimate EUR 110 mio, if recipients of 40% of old-age pensions decide to retire in two years and with 1.000 replacement employees. EUR 140 mio if working contract is cancelled for all recipients of 40% of old-age pensions without replacement employees. [5]Pension and Disability Fund estimate. [6]Estimate by Pension and Disability Fund and Health Insurance Fund on the basis of the proposition of introducing a cap on social security payments above EUR 6,000 EUR gross wage.*

**Figure 2.5: Selected categories of general government expenditure (excluding the effect of COVID measures)**




*Source: MoF, SORS, FC calculations.*

**Figure 2.6: Structure of general government gross fixed capital formation**




*Source: SORS, MoF, FC calculations.*

the increased investment spending is financed by EU grants as this way the impact on the balance could be neutralised. Projections for expenditure on investments have been relatively inaccurate in the past,[19] and a possible rapid and significant growth may increase the risks to investment efficiency (see Box 2.3). The other key factor in the worsening of the balance in 2021, without considering the impact of COVID-related measures, is the projected nearly 10% growth in expenditure on social benefits, which is even higher than last year and the highest since 2008. The Fiscal Council assesses that, in this area, the increase in expenditure is permanent, thus worsening the structural position of public finances. A good half of this growth is expected to be due to higher expenditure on pensions, largely due to the impact of the measures that have already been adopted (see Table 2.1). The projected growth in expenditure on other social benefits is also very high, but in our assessment, it is not based on the measures adopted so far and deviates from the dynamics in the first months of the year. Growth in most other categories of expenditure is also expected to be higher than last year. Higher expenditure on the compensation of employees and intermediate consumption will account for around a fifth of the total growth. Expenditure on interest is expected to decrease, but despite favourable financing conditions to a lesser extent than in the past due to increased borrowing.

**Growth in revenue without considering the direct impact of COVID-related measures is expected to be relatively modest this year (1.9%).** Due to the impact of COVID-related measures, which included the possibility of deferred payment or the payment of tax liabilities in instalments and of not calculating and paying tax, last year's revenue, which does not take this impact into account, was higher than the headline level and this meant that the year-on-year decline was smaller. This year, payments of previously approved deferred or instalment payments of tax liabilities are expected to be higher than newly approved deferrals or instalment payments; accordingly, the level of revenue that does not take into account this impact will be lower than headline revenue, resulting in lower growth in revenue (see also Box 2.1).[20] The forecast trend in revenue without taking into account the aforementioned impact of COVID-related measures in the area of taxes and social contributions is

[19] For more information, see Fiscal Council (2020b).

[20] The assessment of trends in revenue without considering the impact of COVID-related measures differs from the assessment of the Fiscal Council in Monthly Information. In Monthly Information, in assessing revenue, the impact of revenue from EU funds by which COVID-related expenditure is financed is neutralised. In assessing the SP 21, this is not taken into account, as these data are not available.

**Table 2.2: Projections of main aggregates of general government (excluding the direct effect of COVID measures)**

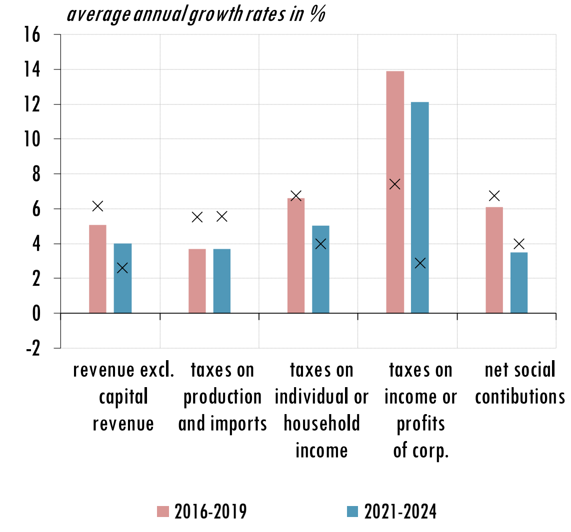
| *EUR million, unless stated otherwise* | outturn SORS | SP 2021 | | | | change | | | | | change in % | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2020 | 2021 | 2022 | 2023 | 2024 | 2020 | 2021 | 2022 | 2023 | 2024 |
| **GG revenue** | **20,569** | **20,967** | **22,056** | **22,968** | **23,819** | **-592** | **398** | **1,089** | **912** | **850** | **-2.8** | **1.9** | **5.2** | **4.1** | **3.7** |
| *Total taxes* | *9,772* | *9,653* | *10,173* | *10,787* | *11,233* | *-638* | *-119* | *520* | *614* | *445* | *-6.1* | *-1.2* | *5.4* | *6.0* | *4.1* |
| Taxes on production and imp. | 6,147 | 6,113 | 6,405 | 6,699 | 6,899 | -475 | -34 | 292 | 294 | 200 | -7.2 | -0.5 | 4.8 | 4.6 | 3.0 |
| Curr. taxes on inc. and wealth | 3,613 | 3,531 | 3,756 | 4,076 | 4,321 | -157 | -83 | 225 | 320 | 245 | -4.2 | -2.3 | 6.4 | 8.5 | 6.0 |
| Capital taxes | 12 | 9 | 12 | 12 | 13 | -6 | -3 | 3 | 0 | 0 | -34.0 | -23.7 | 32.5 | 1.7 | 2.1 |
| Social contributions | 8,046 | 8,213 | 8,524 | 8,857 | 9,234 | 323 | 167 | 311 | 333 | 377 | 4.2 | 2.1 | 3.8 | 3.9 | 4.3 |
| Property income | 296 | 209 | 216 | 191 | 193 | -114 | -87 | 7 | -25 | 2 | -27.9 | -29.2 | 3.3 | -11.6 | 1.1 |
| Capital transfers | 293 | 485 | 572 | 557 | 535 | -38 | 192 | 87 | -16 | -22 | -11.6 | 65.4 | 18.0 | -2.7 | -3.9 |
| Other | 2,161 | 2,406 | 2,570 | 2,576 | 2,624 | -124 | 245 | 164 | 6 | 47 | -5.4 | 11.3 | 6.8 | 0.3 | 1.8 |
| **GG expenditure** | **21,656** | **23,985** | **24,978** | **25,041** | **25,425** | **703** | **2,329** | **993** | **63** | **384** | **3.4** | **10.8** | **4.1** | **0.3** | **1.5** |
| Compensation of employees | 5,562 | 5,800 | 6,222 | 6,285 | 6,357 | 88 | 238 | 422 | 64 | 72 | 1.6 | 4.3 | 7.3 | 1.0 | 1.1 |
| Intermediate consumption | 2,940 | 3,135 | 3,182 | 3,159 | 3,201 | -16 | 195 | 46 | -23 | 42 | -0.5 | 6.6 | 1.5 | -0.7 | 1.3 |
| Social payments | 8,664 | 9,480 | 9,809 | 10,053 | 10,360 | 241 | 816 | 329 | 243 | 307 | 2.9 | 9.4 | 3.5 | 2.5 | 3.1 |
| Interest expenditure | 756 | 740 | 688 | 659 | 664 | -69 | -16 | -52 | -29 | 5 | -8.4 | -2.2 | -7.0 | -4.2 | 0.8 |
| Subsidies | 591 | 499 | 508 | 517 | 516 | 244 | -91 | 8 | 9 | -1 | 70.3 | -15.5 | 1.7 | 1.8 | -0.1 |
| Gross fixed capital formation | 1,907 | 3,008 | 3,200 | 3,029 | 2,953 | 70 | 1,101 | 193 | -171 | -76 | 3.8 | 57.7 | 6.4 | -5.4 | -2.5 |
| Other | 1,236 | 1,323 | 1,370 | 1,340 | 1,375 | 145 | 87 | 46 | -30 | 36 | 13.3 | 7.0 | 3.5 | -2.2 | 2.7 |
| **Balance** | **-1,087** | **-3,019** | **-2,922** | **-2,073** | **-1,607** | **-1,295** | **-1,931** | **96** | **850** | **466** | | | | | |
| **Balance (in % of GDP)** | **-2.3** | **-6.2** | **-5.7** | **-3.8** | **-2.8** | **-2.8** | **-3.9** | **0.5** | **1.9** | **1.0** | | | | | |

**Table 2.3: Projections of main aggregates of general government (total)**

| *EUR million, unless stated otherwise* | outturn SORS | SP 2021 | | | | change | | | | | change in % | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2020 | 2021 | 2022 | 2023 | 2024 | 2020 | 2021 | 2022 | 2023 | 2024 |
| **GG revenue** | **20,195** | **21,088** | **22,125** | **22,983** | **23,830** | **-966** | **893** | **1,037** | **858** | **847** | **-4.6** | **4.4** | **4.9** | **3.9** | **3.7** |
| *Total taxes* | *9,398* | *9,775* | *10,242* | *10,802* | *11,244* | *-1,012* | *376* | *468* | *559* | *442* | *-9.7* | *4.0* | *4.8* | *5.5* | *4.1* |
| Taxes on production and imp. | 5,972 | 6,221 | 6,463 | 6,702 | 6,899 | -650 | 249 | 242 | 239 | 197 | -9.8 | 4.2 | 3.9 | 3.7 | 2.9 |
| Curr. taxes on inc. and wealth | 3,414 | 3,545 | 3,767 | 4,087 | 4,332 | -356 | 131 | 222 | 320 | 245 | -9.4 | 3.8 | 6.3 | 8.5 | 6.0 |
| Capital taxes | 12 | 9 | 12 | 12 | 13 | -6 | -3 | 3 | 0 | 0 | -34.0 | -23.7 | 32.5 | 1.7 | 2.1 |
| Social contributions | 8,046 | 8,213 | 8,524 | 8,857 | 9,234 | 323 | 167 | 311 | 333 | 377 | 4.2 | 2.1 | 3.8 | 3.9 | 4.3 |
| Property income | 296 | 209 | 216 | 191 | 193 | -114 | -87 | 7 | -25 | 2 | -27.9 | -29.2 | 3.3 | -11.6 | 1.1 |
| Capital transfers | 293 | 485 | 572 | 557 | 535 | -38 | 192 | 87 | -16 | -22 | -11.6 | 65.4 | 18.0 | -2.7 | -3.9 |
| Other | 2,161 | 2,406 | 2,570 | 2,576 | 2,624 | -124 | 245 | 164 | 6 | 47 | -5.4 | 11.3 | 6.8 | 0.3 | 1.8 |
| **GG expenditure** | **24,062** | **25,269** | **25,033** | **25,041** | **25,425** | **3,110** | **1,207** | **-236** | **8** | **384** | **14.8** | **5.0** | **-0.9** | **0.0** | **1.5** |
| Compensation of employees | 5,860 | 6,089 | 6,242 | 6,285 | 6,357 | 386 | 229 | 153 | 44 | 72 | 7.0 | 3.9 | 2.5 | 0.7 | 1.1 |
| Intermediate consumption | 3,063 | 3,170 | 3,217 | 3,159 | 3,201 | 107 | 107 | 47 | -58 | 42 | 3.6 | 3.5 | 1.5 | -1.8 | 1.3 |
| Social payments | 9,129 | 9,766 | 9,809 | 10,053 | 10,360 | 706 | 637 | 43 | 243 | 307 | 8.4 | 7.0 | 0.4 | 2.5 | 3.1 |
| Interest expenditure | 756 | 740 | 688 | 659 | 664 | -69 | -16 | -52 | -29 | 5 | -8.4 | -2.2 | -7.0 | -4.2 | 0.8 |
| Subsidies | 1,822 | 1,035 | 508 | 517 | 516 | 1,475 | -787 | -527 | 9 | -1 | 425.4 | -43.2 | -51.0 | 1.8 | -0.1 |
| Gross fixed capital formation | 1,929 | 3,010 | 3,200 | 3,029 | 2,953 | 93 | 1,081 | 191 | -171 | -76 | 5.0 | 56.0 | 6.3 | -5.4 | -2.5 |
| Other | 1,504 | 1,460 | 1,370 | 1,340 | 1,375 | 413 | -44 | -90 | -30 | 36 | 37.8 | -2.9 | -6.2 | -2.2 | 2.7 |
| **Balance** | **-3,868** | **-4,181** | **-2,909** | **-2,059** | **-1,596** | **-4,075** | **-313** | **1,272** | **850** | **463** | | | | | |
| **Balance (in % of GDP)** | **-8.4** | **-8.6** | **-5.7** | **-3.8** | **-2.8** | **-8.8** | **-0.3** | **3.0** | **1.9** | **1.0** | | | | | |

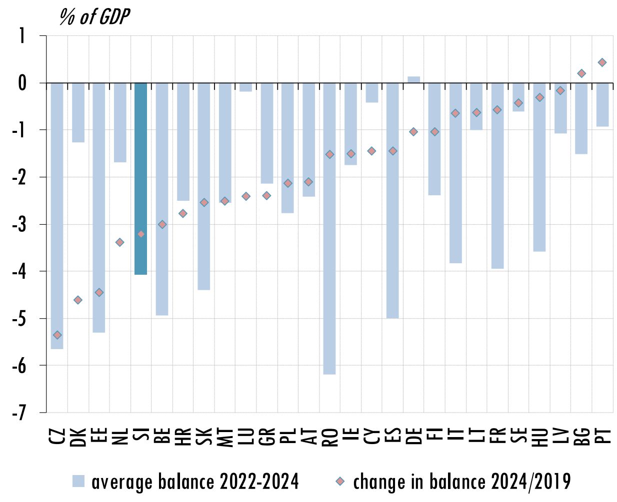
*Sources: MoF, SORS, IMAD, FC calculations.*

**Figure 2.7: Revenue types and their bases**




*Note: Crosses denote average annual growth rates of macroeconomic bases.*
*Source: SORS, MoF, IMAD, FC calculations.*

**Figure 2.8: General government balance**




*Source: IMF, Slovenia: SP 21, FC calcualtions.*

mostly consistent with IMAD's forecast of macroeconomic tax bases. The expected modest growth in some tax revenue is, to a certain extent, also related the adoption of discretionary measures (see Table 2.1). Total growth continues to be inhibited by significantly lower property income, which, in our assessment, is due to poor business results and, to a certain extent, restrictions on dividend payments. A relatively high growth in revenue from miscellaneous current and capital transfers is again expected in relation to the use of European funds (around 65%). The actual realisation of these two headings is usually lower than projected, as was the case in 2020[21].

**In the 2022–2024 period, without considering the impact of COVID-related measures, the nominal deficit is expected to gradually decrease; however, the Fiscal Council assesses that, without the adoption of discretionary measures, the projections are not entirely realistic.** Without the direct impact of COVID-related measures, the deficit is expected to decrease to –5.7% of GDP next year and fall below the limit of excessive deficit of –3% of GDP in 2024. Despite the expected gradual improvement, the latest available forecasts[22] show that the worsening of the state of public finances, measured by the change in the balance in 2024 compared to the pre-crisis level in 2019, will be the fifth largest in the EU.[23] In the SP 21, the Ministry of Finance expressly states that targets for 2023 and 2024 are only indicative. The Fiscal Council has established that, in the current situation, projections for a longer period are uncertain, also due to the vagueness of possible discretionary measures. However, due to the assumed improvement in the balance, projections must be realistic and credible measures to achieve the projected growth of individual fiscal aggregates should be presented.

**Revenues are expected to increase by 4.3% on average annually in the 2022–2024 period, which is an increase similar to that recorded in the 2016–2019 period and is largely consistent with the forecasted trends in tax bases.** Growth will be mostly due to the recovery in revenue from VAT,

[21] In the Draft Budgetary Plan 2021, the growth in revenue from miscellaneous current transfers projected for 2020 was 11.8% and the projected growth in revenue from capital transfers was 13.2%. The achieved growth was –35% and –11.6% respectively.

[22] IMF (2021a).

[23] In terms of methodology, the forecasts by the IMF are not entirely consistent with the ESA methodology, but they enable a comparison between countries.

**Box 2.1: The overview of and the projection for the direct impact of COVID-related measures**

**According to the assessment of the Ministry of Finance, in the 2020–2024 period, the overall direct impact of COVID-related measures on the general government balance will total EUR 3.9 billion.** On the basis of data on measures implemented so far and the projected funds, the Ministry of Finance submitted to the Fiscal Council an assessment made under the ESA methodology based on the accrual principle. This is an internationally comparable methodology which is also used in assessments of compliance with fiscal rules. These data are methodologically different from state budget data on the basis of which the Fiscal Council prepares Monthly Information[1], which is based on the cash flow methodology. According to the assessment of the Ministry of Finance, under the ESA methodology, expenditure on COVID-related measures totalled EUR 2,406 million last year, which is slightly less than projected in the Draft Budgetary Plan 2021 (EUR 2,580 million). Last year, the effect on the revenue side totalled EUR 374 million, and the total impact on the balance totalled EUR 2,780 million or 6.0% of GDP. In 2021, expenditure on COVID-related measures under the ESA methodology is expected to be a half lower than last year and amount to EUR 1,284 million. As payments of previously approved deferred or instalment payments of tax liabilities are expected to be higher than the newly approved deferrals or instalment payments, the projected impact of measures on revenue is positive, totalling EUR 122 million. The overall impact on the balance is expected to be EUR 1,162 million or 2.4% of the projected GDP in 2021. The difference between the actual expenditure on COVID-related measures since the onset of the epidemic, which, according to the assessment of the Fiscal Council, totals EUR 2,858 million (up to and including March), and the assessment of the Ministry of Finance for 2020 and 2021 implies that around EUR 800 million is planned for COVID-related expenditure this year. On the basis of the SP 21, EUR 55 million is planned for expenditure under the ESA methodology in 2022, and the impact on revenue will be slightly positive in the 2022–2024 period due to payments of previously approved deferred or instalment payments of tax liabilities.

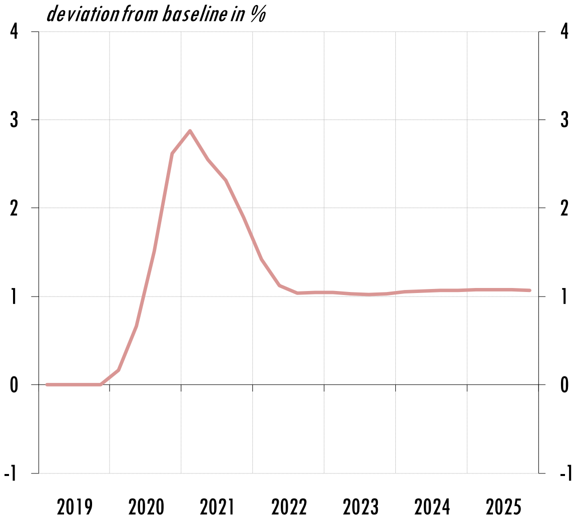
**The Fiscal Council reiterates that COVID-related measures should be temporary, transparent, targeted and should address the direct consequences of the epidemic.** The measures have so far contributed to a smaller decline in economic activity and job retention. The Fiscal Council assesses that, without measures, last year the GDP level would have been about 3% lower than currently estimated.[2] In our assessment, the adopted measures were mostly in compliance with the recommendations and are similar to those in other countries. Despite this, certain measures had a negative structural effect on public finances, one of them being retirement upon the fulfilment of conditions[3], which can have a significant impact on public finances, also according to the assessments of the Pension and Disability

**Table: Direct effect of COVID measures on main aggregates of the general government (ESA methodology)**

| | 2020 | 2021 | 2022 |
|---|---|---|---|
| **Revenue** | **-374** | **122** | **69** |
| Taxes on production and imports | -175 | 107 | 58 |
| Current taxes on income, wealth etc. | -199 | 14 | 11 |
| **Expenditure** | **2,406** | **1,284** | **55** |
| Compensation of employees | 298 | 289 | 20 |
| Intermediate consumption | 123 | 34 | 35 |
| Social payments | 465 | 286 | |
| Subsidies | 1,231 | 536 | |
| Gross fixed capital formation | 22 | 2 | |
| Misc. current transfers | 268 | 137 | |
| **Balance** | **-2,780** | **-1,162** | **14** |

*Source: MoF.*

**Figure: Effect of measures on real GDP level**




*Source: MoF, SORS; FC calculations.*

Insurance Institute of Slovenia (see Table 2.1). Considering the significant overall extent of COVID-related measures, more targeted measures are called for, particularly in the area of employee benefits. The data up to and including March this year show that EUR 394 million were used for COVID-related benefits for employees in the public sector (EUR 418 million for all benefits), which is nearly the same amount as was used for compensation for temporarily laid off workers (EUR 454 million). In addition to the reported payments of benefits relating to COVID-related measures, state budget expenditure on benefits for work in special conditions, not taking into account the impact of COVID-related benefits,[4] increased significantly in the period from December 2020 to February 2021. For the time being, income tax prepayment is calculated upon the payment of benefits in the public sector, although benefits are exempt from tax in accordance with the legislation. According to the assessment of the Ministry of Finance, in the 2021–2022 period, refunds of excess income tax prepayments will total around EUR 95 million.

[1] Available at: https://www.fs-rs.si/publications/monthly-information/.

[2] IMAD assesses that, without measures, last year's decline in GDP would have been 4 pps higher. See IMAD (2021).

[3] Articles 21 and 22 of the ZIUPOPDVE

[4] In the period from December 2020 to February 2021, this kind of expenditure significantly deviates from the long-term average, by around EUR 30 million in total. Considering that data on epidemic-related benefits are reported with a delay, it is possible that, in this case, these are also in fact COVID-related benefits.

**Box 2.2: Projections about the use of EU funds**

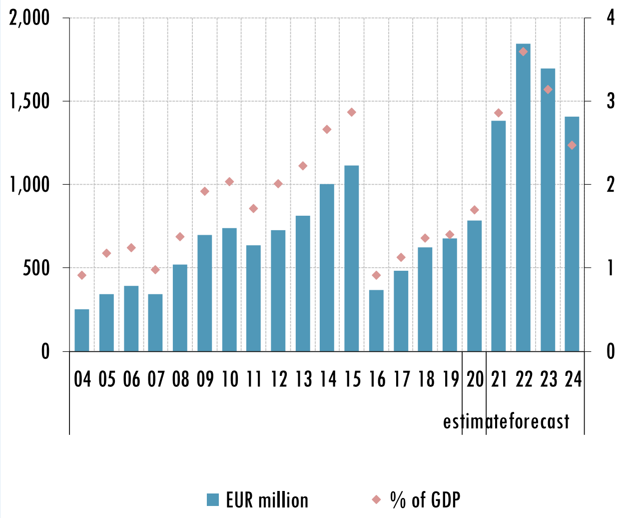
**European funds will play an important role in the implementation of the fiscal policy in the upcoming years; however, the Fiscal Council finds the SP21 projections about the use of EU funds rather optimistic.** In the upcoming years, funds will be available from the previous multiannual financial framework for 2014–2020, the new framework for 2021–2027 and from the Next Generation EU instrument. A total of EUR 8.3 billion in grants is available under these three financial instruments. In this regard, it should be noted that the funds from the previous multiannual financial framework can be spent by the end of 2023, the Next Generation EU funds up to and including 2026 and the new framework funds by 2030. The SP 21 projections include the assumption that in the four years to 2024, EUR 6.3 billion in grants will be used, which constitutes as much as 76% of all grants available in the next ten years. Therefore, the expected dynamics of the use of EU funds significantly deviates from the trends since Slovenia joined the EU and implies a pronounced improvement in the capacity to secure EU funds.

**Table: Overview of available EU grants and their projected use in 2021-2024**

| | |
|---|---|
| NextGenEU | 2,098 |
| -Recovery and resilience Fund - grants | 1,589 |
| -React EU - grants | 312 |
| -Just Transition Fund - grants | 129 |
| -Rural development- grants | 68 |
| Multiannual Financial Framework 2014-2020[1] | 1,614 |
| Multiannual Financial Framework 2021-2027 | 4,622 |
| -cohesion funds | 2,974 |
| -natural resources and the environment | 1,648 |
| **Available grants up to 2030 - TOTAL** | **8,334** |
| **Projected use of grants 21-24 (SP 21)** | **6,327** |

*Vir: MoF, ODECP. Note: [1] Avaliable cohesion funds 31 December 2020.*

**Figure: General government revenue from EU funds**




*Source: SORS, MoF, IMAD, FC calculations.*

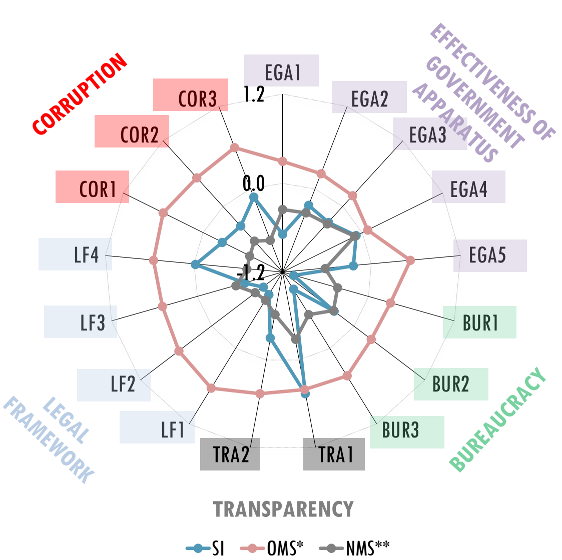
**Box 2.3: Efficiency of public investments[1]**

**With a forecast substantial strengthening of investment activities in the 2021–2024 period, these funds should be used more effectively than in the past to ensure the largest multiplier effect possible.** The SP 21 projections confirm the expectations that public investment should play a key role in ensuring a recovery from the current epidemic crisis. Various studies show that the magnitude of the multiplier effects of public investment is uncertain and dependent on a number of factors, to a large extent on the efficiency of the institutional framework. The Fiscal Council notes that Slovenia, in the absence of visible progress over a long period, lags behind the most successful EU Member States in terms of both the quality of the institutional framework and the efficiency of public investment. The multiplier effects are significantly reduced with a rapid and marked increase in public investment, as in such situations the risk of corruption increases, among other things, and investment costs may increase by between 10–15%.[2] At the same time, the projects implemented in a time of a rapid increase in public investment are generally less successful in achieving their goals.[3] To enhance the efficiency of public investment, it would be advisable to, above all, implement the findings based on the IMF-based review[4] of investment performance-related institutions to increase their efficiency.

**In terms of investment and infrastructure, Slovenia lags behind the most developed EU Member States precisely in the areas identified as a priority under the EU Recovery and Resilience Fund.** In spite of a significant reduction of the gap in the volume of public capital behind the average of the old EU Member States, Slovenia ranks in the lower half of the EU Member States. The lags are most noticeable in digitisation and green transition. Within the latter, in the field of sustainable mobility, the lag in the quality of railway infrastructure and in the volume of energy production from renewable sources stands out. Slovenia's lagging behind the best EU Member States can also be seen in the areas of health and education, where public investment dropped below the long-term average of the years before the epidemic.

**According to the Fiscal Council's assessment, the reduction in public investment within the total expenditure of the general government in the years before the crisis is not due to consolidation, but rather the result of a lack of credible medium-term fiscal framework and the relatively ineffective planning and use of European funds in this context.** In the years prior to the epidemiological crisis, a fiscal consolidation, which was among the most intense in the EU, took place in Slovenia to a lesser extent through a reduction in public investment than in most other EU Member States. The movement of public investment was mainly influenced by the dynamics of the use of European funds, namely to a greater extent than the average of the new EU Member States. In

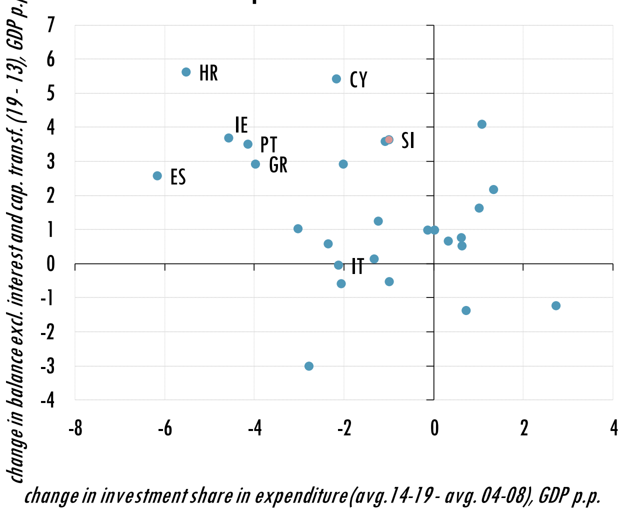
**Figure 1: Quality of institutional framework*****




EFFECTIVENESS OF GOVERNMENT APPARATUS
EGA1 - IMD Government Efficiency (2018)
EGA2 - IMD Public finances (2020)
EGA3 - IMD Adaptability of government policy (2020)
EGA4 - WB Government Effectiveness (2019)
EGA5 - WEF Future orientation of government (2019)
BUREAUCRACY
BUR1 - WEF Burden of government regulation (2019)
BUR2 - IMD Bureaucracy (2020)
BUR3 - WB Regulatory Quality (2019)
TRANSPARENCY
TRA1 - WEF Budget transparency (2019)
TRA2 - IMD Transparency (2020)
LEGAL FRAMEWORK
LF1 - WEF Judicial independence (2019)
LF2 - WEF Efficiency of legal framework in challenging regulations (2019)
LF3 - WEF Efficiency of legal framework in settling disputes (2019)
LF4 - WB Rule of Law (2019)
CORRUPTION
COR1 - WEF Incidence of corruption (2019)
COR2 - IMD Bribery and corruption (2020)
COR3 - WB Control of Corruption (2019)

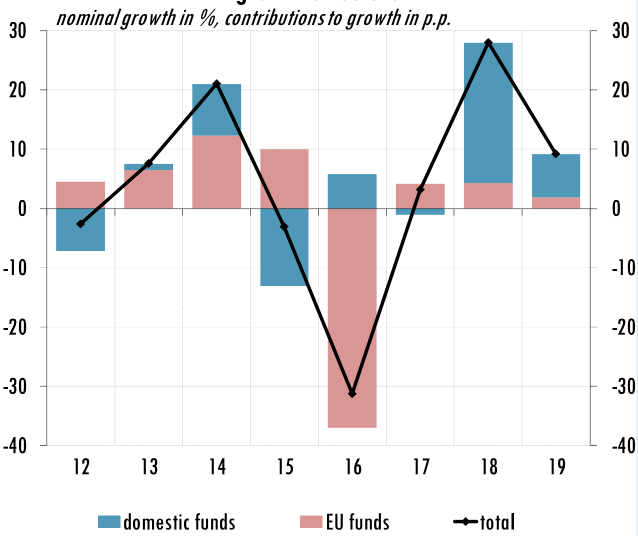
*Source: WB, WEF, IMD, FC calclulations. Notes: *old EU member states, **new EU member states excl SI, MT, CY, *** standardised indicator values EU-27=0.*

**Figure 2: Change in investment share in general government expenditure and change in balance excluding interest and capital transfers**




*Source: Eurostat, FC calculations.*

**Figure 3: General government gross fixed capital production growth structure**




*Source: SURS, FC calculations.*

addition to improving the institutional framework, it would also be advisable to strengthen the medium -term fiscal framework to enhance the efficiency of public investment. This would improve investment planning, while special attention should be paid to the strategy of the use of European funds considering their expected important role in the upcoming years. At the same time, it would be advisable to help improve planning coherence between different levels of government, and better coordinate the national and sectoral development strategies and integrate them more fully into the budget planning process.

[1] For more information, see Fiscal Council (2021a).

[2] IMF (2020).

[3] Isham, Kaufmann (1999), Presbitero (2016).

[4] This refers to the Public Investment Management Assessment (PIMA) framework.

current taxes on income and property, and social security contributions. Revenue from excise duties is expected to be higher in 2022 and 2023 and remain at that level in 2024[24]. After decreasing for a longer period, property income is expected to slightly increase in 2022 and 2024 and decrease in 2023.[25] After significant growth this year, revenue from miscellaneous current and capital transfers, the important part of which is associated with the use of European funds, is expected to further increase next year and then remain at the similar level until the end of the projection period. The SP 21 projects the high level of revenue from EU funds, around EUR 1.6 billion on average. Such high level significantly deviates from trends in the past, implicitly presuming that the capacity to absorb European funds will increase tremendously (see Box 2.2), as up to and including 2024, more than three thirds of all European grants available in the next decade are expected to be used. In the past, the actual realisation of the use of such funds was smaller than projected.

**In the 2022–2024 period, average expenditure growth is expected to be only 2.0%, but the level of expenditure will be around 2 p. p. of GDP higher on average than in the pre-crisis period, also due to the structural increase during the crisis.** Growth, which will be slightly lower on average than

[24] The deviation of the projection for 2024 from the expected trend in the two preceding years is not explained in the SP 21.

[25] As in the case of projections of revenue from excise duties, such change in the dynamics in the medium term would require an explanation, but no explanation has been provided in the SP 21.

in the pre-crisis period, is expected to be mostly due to higher social benefits. The projected increase in social benefits by only 0.4% in 2022 (Table 2.3) includes a significant decrease in expenditure on pensions (–6.4%), which, the Fiscal Council assesses, is not realistic considering the dynamics so far and, particularly, the absence of comprehensive discretionary measures, which are not presented in the SP 21. After a relatively high increase next year, the compensation of employees is expected to increase only by around 1.0% in 2023 and 2024. A similar increase was seen in the 2012–2015 period when austerity measures were in force. Growth in expenditure on intermediate consumption is also expected to be considerably lower than in the period before the crisis (0.7% on average annually). Although growth in expenditure on subsidies and other current transfers is projected to be modest, their level, after significantly increasing during the crisis, is expected to be around EUR 200 million higher on average annually than in the four years before the onset of the epidemic. In our assessment, this is related to the projected high revenue from EU funds for these two purposes. After significantly increasing this year, in the 2022–2024 period, expenditure on investment is expected to remain at a similarly high level on average, namely around EUR 3 billion or around 6% of GDP. In these years, EU funds are to account for a small part of total investment (around 15%).

### 2.2 Gross general government debt

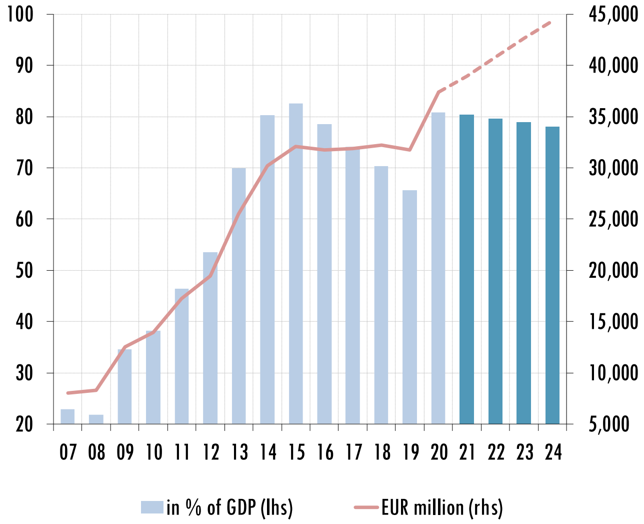
**After a significant increase in 2020, the general government debt-to-GDP ratio is expected to slightly decline by the end of 2024, but it will nevertheless remain much higher than before the crisis.** A decline in the debt-to-GDP-ratio from the last year's level of 80.8% is to be very gradual. If the primary balance deficit continues and the forecasted nominal GDP growth, which is expected to be higher than the implicit interest rate, is achieved, the ratio is expected to be reduced to 78.0% of GDP by the end of 2024. In nominal terms, in the SP 21 projection period, the debt is expected to increase in total by around EUR 7 billion to stand at EUR 44.3 billion.

**The state's financing conditions remain extremely favourable, mostly due to a highly stimulative monetary policy.** After significantly decreasing last year for all EU Member States, the required yield on Slovenian government bonds has stabilised at around 0% in recent months. The demand for long-term bonds far exceeded the supply in 2021, when long-term bonds worth EUR 2.9 billion were issued (including a 60-year bond). The implementation of ECB measures, particularly the Pandemic Emergency Purchase Programme (PEPP), made an important contribution in this regard. Under the PEPP, up to and including March, the ECB repurchased EUR 4.2 billion of Slovenian public debt on the secondary market. This debt accounts for three fifths of the debt issued since this programme began to be implemented in March 2020 and, as a share of total debt, is the second largest in the euro area. Thus, the credit rating of Slovenia remains stable and is even improving.[26] Despite the debt increase, interest expenditure, as a share of GDP, is expected to further decline, but more slowly than before the crisis. Until now, such decline was made possible through effective debt management and outstanding debt refinancing with favourable interest rates, which was largely the result of the ECB's stimulative policy.

**The current favourable liquidity position of the state budget and the stable situation regarding guarantees provide room for a gradual reduction of debt.** After increasing by EUR 2.2 billion in 2020, from the end of last year to the end of March, the balance in the treasury single account further

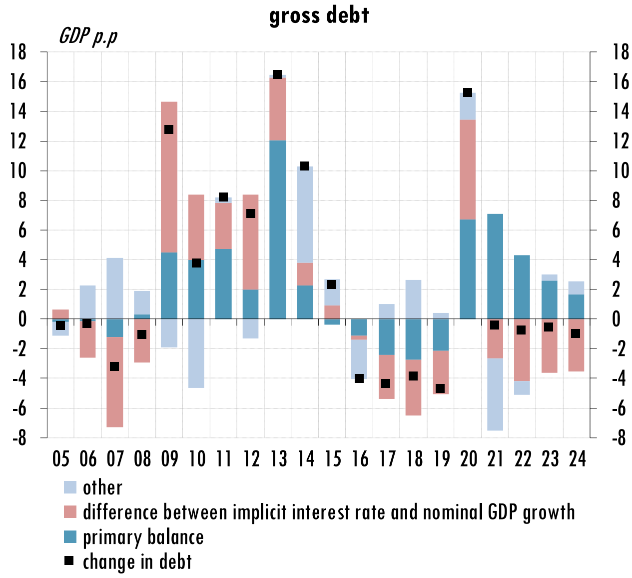
[26] In the beginning of October 2020, Moody's raised Slovenia's credit rating with a positive outlook. For more information, see https https://www.gov.si/en/news/2020-10-03-moodys-upgrades-slovenias-credit-rating-in-uncertain-times/.

**Figure 2.9: General government debt**



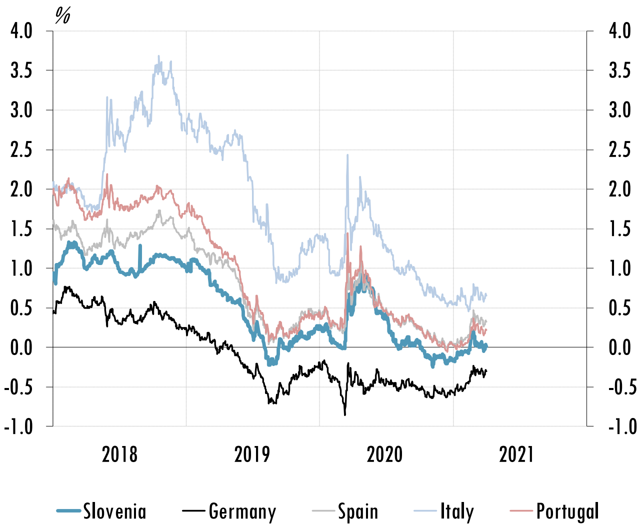

*Source: SORS, MoF.*

**Figure 2.10: Contributions to change in general government gross debt**



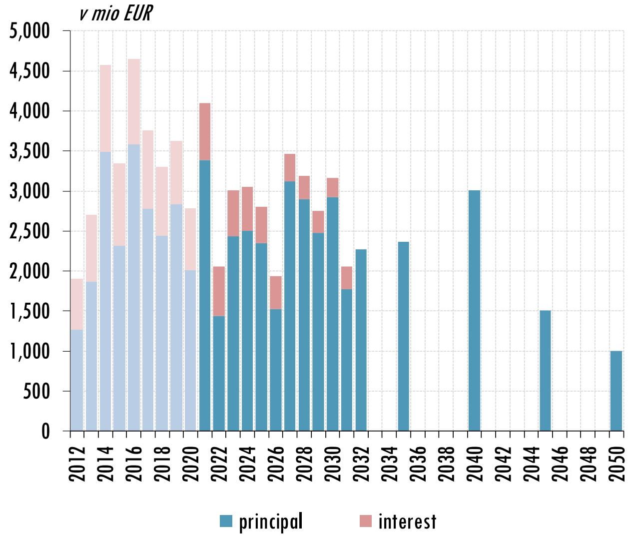

*Source: SORS, MoF, IMAD, FC calculations.*

**Figure 2.11: Yields on 10-year government EUR reference bonds**



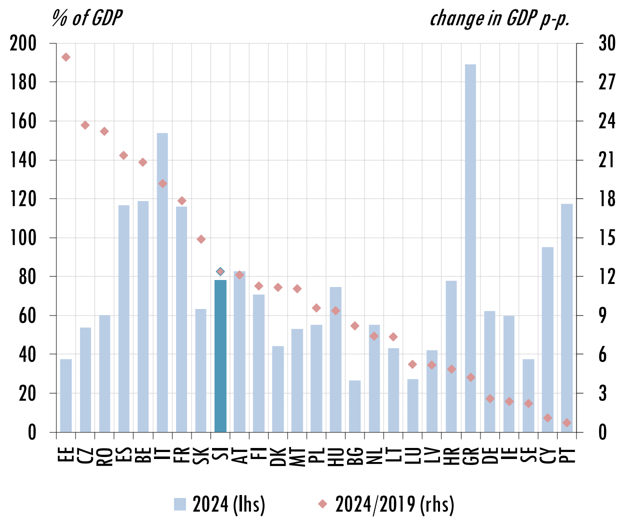

*Source: Bloomberg.*

**Figure 2.12: State budget debt repayments until 2050***



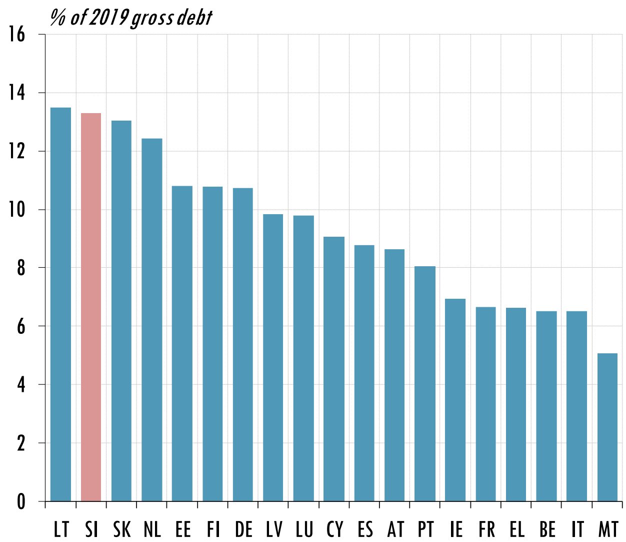

*Note: *As of 28 February 2021. No information on interest payments after 2031.*
*Source: MoF.*

**Figure 2.13: General government gross debt**




*Source. IMF, Slovenia: SP 21, FC calculations.*

**Figure 2.14: Share of PEPP in general government gross debt***



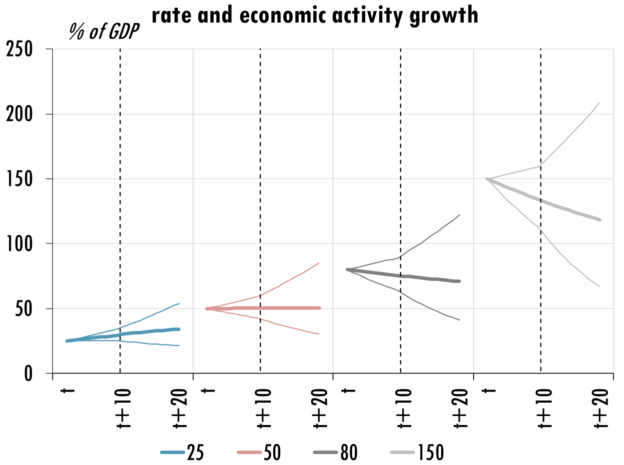

*Source: Eurostat, ECB, FC calculations. Note: *PEPP: Pandemic Emergency Purchasing Programme, purchases up to and including March 2021.*

**Box 2.4: General government debt in times of low interest rates[1]**

**In the past, a high level of general government debt and in particular its rapid increase have generally indicated the high probability of a financial and fiscal crisis.** Such conclusions have usually been drawn from debt sustainability analyses, although empirical analyses on the correlation between debt, fiscal crisis and economic activity allow for no unambiguous conclusions.[2] In the current crisis, which has coincided with a period of an exceptionally accommodative monetary policy and the resulting favourable financing conditions also for financing government's debt, the concept that public debt does not produce expenses has become the subject of many academic and political discussions, especially following the Blanchard's analysis (2019). This concept is based on the assumption that the fiscal policy does not have to produce a primary budget surplus if the interest rates are lower than the economic growth for a prolonged period.

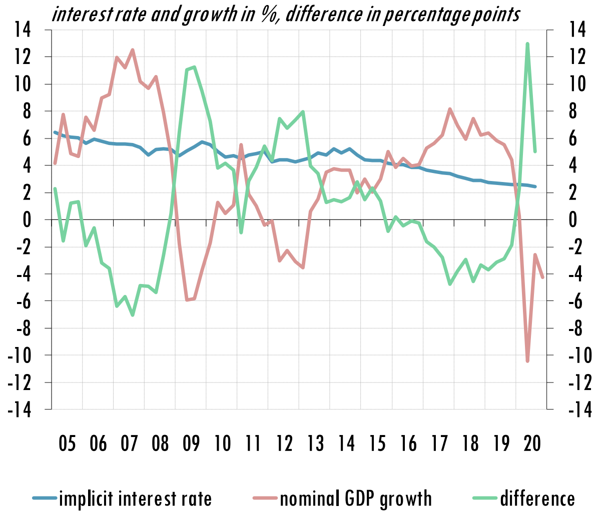
**With the difference between the interest rates and economic activity growth remaining negative, the debt ratio is declining faster in the case of a high base debt level.** This seemingly paradoxical relation is based on a simple correlation between debt and interest rates (i) and economic growth (g) (see Figure 1 for the period of [t,t+10]). In this context, it is important to highlight the risks arising from potential changes to this difference. The findings of an IMF study (Mauro and Zhou, 2020), in which the historical data of the i–g difference were analysed, show that the difference was negative in most cases, in both advanced and in emerging economies, and often persisted for long stretches. Nevertheless, one of the study's findings also suggest that, in general, the negative i–g difference before a debt crisis does not change substantially and that, compared to the economic growth, financing costs generally rise abruptly and sharply just prior to default. Studies (e.g. Lian et al., 2020) also show that such sudden changes are particularly frequent when the debt is high and affected countries are exposed to domestic and global shocks to a large extent. In accordance with a study carried out by the European Commission (2020a), in periods of the negative i–g difference, the public debt is reduced by less than half compared to periods when the interest rates are higher than the GDP growth. Similar developments are also typical for Slovenia. Periods with a positive i–g difference coincide with periods of economic crisis (see Figure 2) and largest debt increase, while even the prolonged periods of negative difference of the aforementioned ratio (e.g. 2016–2019) were insufficient for the debt to return to pre-crisis levels. This is also important because an analysis conducted by the European Commission (2020b) reveals that EU Member States reduce their efforts most in the periods of the negative i–g difference and that this often occurs especially in the countries

**Figure 1: Government debt development conditional on its initial levels and shocks to the difference between interest rate and economic activity growth**




*Note: Thicker lines represent government debt assuming its various initial levels, primary deficit of 1 % of GDP and i-g =-2 p.p. Thinner lines represent the debt if i-g is 2 p.p higher or lower. After the shock in t+11 the i-g difference additionally increases or decreases by 2 p.p.*
*Source: FC.*

**Figure 2: The difference between implicit interest rate and nominal GDP growth**




*Source: SORS; FC calculations.*

with a high debt-to-GDP ratio. Such trends further highlight the necessity of creating sufficient fiscal space in favourable economic conditions.

**Due to an increased sensitivity to the changes to variables determining the debt, the high level of debt may constitute an additional source of instability.** Because the macroeconomic situation and, even more so, financial market conditions may change rapidly, the uncertainties related to fiscal policy management may also increase due to the high level of debt (see part of the Figure 1 after the shock – the period of [t+11,t+20]). Therefore, the long- and medium-term debt sustainability will continue to gain on importance in the future, especially after the period of exceptionally favourable financing conditions ends.

[1] A comprehensive analysis is available in Fiscal Council (2021b).

[2] Analyses (Badia et. al, 2020) show that the public debt level is the most important indicator and a harbinger of a crisis showing strong non-linearities, since a high debt affects the emergence of a crisis more profoundly than a low debt affects the absence thereof.

increased by EUR 2.5 billion to total EUR 8.7 billion (18% of GDP projected for 2021). In the SP 21, the Government projects to reduce debt by using part of high liquidity reserves created through pre-financing. Out of EUR 3.5 billion of the principal of the debt falling due this year, about one third of that amount is yet to be paid, and the outstanding balance (EUR 1.4 billion) next year will be the lowest in this decade, according to the current data. The SP 21 projects a gradual reduction of guarantees given by the state, which stood at EUR 5.1 billion (11.0% of GDP) at the end of 2020. Calling on guarantees is projected to be modest and relate primarily to guarantees approved on the basis of anti-crisis measures related to the epidemic.[27]

**Since, in the event of possible shocks, the relatively high level of debt may impair fiscal stability, it is necessary to exercise caution in additional borrowing.** In the current crisis, in view of the comprehensive measures to mitigate the consequences of the epidemic, there has been a significant increase in the general government debt at the global level. Furthermore, according to the latest forecast by the IMF[28], in terms of the increase in the general government debt, Slovenia will rank in the upper third of EU Member States in 2024 compared to 2019. As the debt increases to relatively high levels, it becomes more sensitive to possible additional shocks or changes in macroeconomic indicators, which may cause instabilities in the implementation of the fiscal policy (see Box 2.4).

[27] For more information on the connection between the debt and potential obligations of the state, see the Fiscal Council (2021b).

[28] IMF (2021a). The forecast is not made under the ESA 2010 methodology, but is the latest forecast (April) that enables a comparison between countries. The last forecast by the EC that included the projection for the general government debt under the ESA 2010 was made in 2020. According to that forecast, in terms of the increase in debt in 2022 compared to 2019 levels, Slovenia will rank eighth among EU Member States.

## 3. Risks to the macroeconomic and fiscal scenario

**Key findings**

- Projections of macroeconomic and fiscal developments are exposed to risks mainly due to uncertainty regarding the epidemiological situation and the related measures of the economic policy.
- These risks are largely joined by uncertainty regarding the extent, dynamics and the structure of the use of the new EU mechanism funds, because the national recovery and resilience plan (hereinafter: NRRP) has not yet been adopted.
- The Fiscal Council assesses that negative risks prevail in the context of macroeconomic projections.
- Fiscal projections are also mainly exposed to negative risks related to macroeconomic risks and potential further measures to limit the consequences of the epidemic; however, to a certain extent they are balanced by the assumption of a large-scale and rapid increase in investment expenditure in particular, but also in some other categories of general government expenditure. If fiscal risks would materialise, which would result in a lower deficit, this would, in turn, probably worsen the macroeconomic outlook from the baseline scenario.
- In the current situation, economic policy should avoid structural measures that would worsen the position of public finances in the medium term. In times of relatively high debt, fiscal trends tend to become unstable faster, which is why the fiscal policy is subject to greater uncertainty.

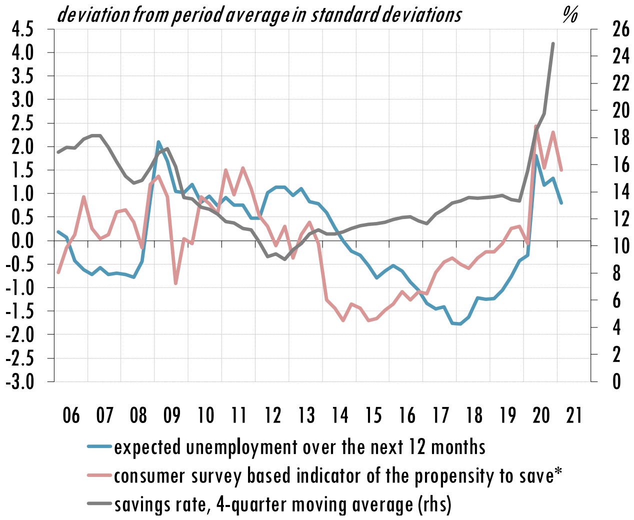
**According to the Fiscal Council, the macroeconomic scenario on which the projections of the SP 21 are based is dominated by negative risks.** The direct risks associated with economic activity are primarily related to the pace of vaccination and to the consequences of measures to contain the COVID-19 epidemic. Any potential delays in the vaccination schedule and the resulting extension or tightening of measures could additionally impede economic activity. Given the past experience with the epidemic, this could primarily affect the services sector, although wider-ranging measures could also affect the industrial activity. In contrast, the indirect risks associated with the epidemic relate to the changes in behaviour of economic entities and are estimated to have the greatest impact on private sector investments.[29] Increased uncertainty could also be reflected, inter alia, in the continued high level of private sector savings, which in the household sector is also driven by supply constraints that affect some important segments of their consumption (e.g. travel).[30] If the period of uncertainty and weak economic activity continues and the measures to mitigate the consequences of the epidemic continue to be lifted, the probability of insolvency and bankruptcy would increase, particularly for small and medium-sized companies.[31] Recently, somewhat more positive risks have dominated the international environment. These relate primarily to a faster pace of vaccination, especially in

[29] See ECB (2020).

[30] IMAD's projections are based, *inter alia*, on a relatively rapid increase in household consumption after the restrictive measures have been lifted, especially due to the reduction in "forced" or "surplus" savings during the crisis. Certain risks arise in relation to this assumption, examples of which are listed in the analysis available at: https://libertystreeteconomics.newyorkfed.org/2021/04/excess-savings-are-not-excessive.html

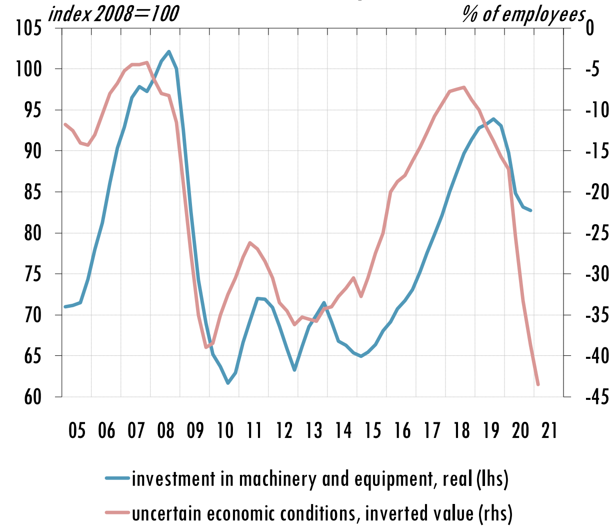
[31] See also Box 2 in Fiscal Council (2021b).

**Figure 3.1: Indicators of expected unemployment and household savings**




*Note: *The difference between survey indicator of savings in the next 12 months and the indicator of financial situation of households in the next 12 months.*
*Source: SORS, FC calculations.*

**Figure 3.2: Investment in machinery and equipment and uncertainty**

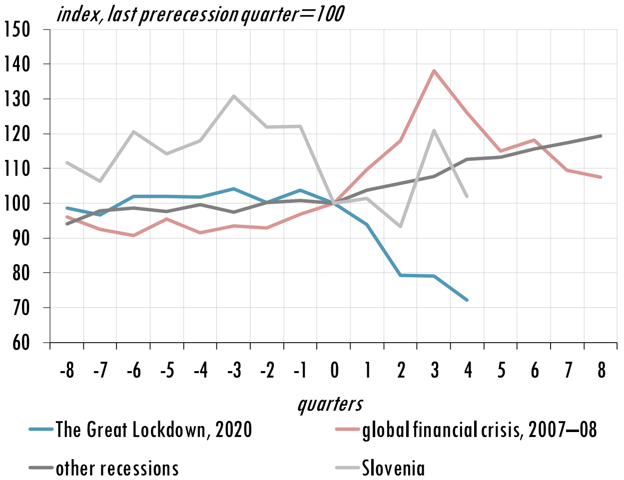



*Note: Seasonally adjusted data, 4-quarter moving average.*
*Source: SORS, FC calculations.*

developed countries, and to the positive effect of stimulative fiscal packages. The forecasts of economic growth for most important trade partners have improved recently, however, some significant negative risks also exist. Among the latter, particularly the risks arising from the higher debt level due to the crisis, trade imbalances, the revaluation of assets on financial markets and the persistence of trade disputes between the USA and China should be highlighted.[32]

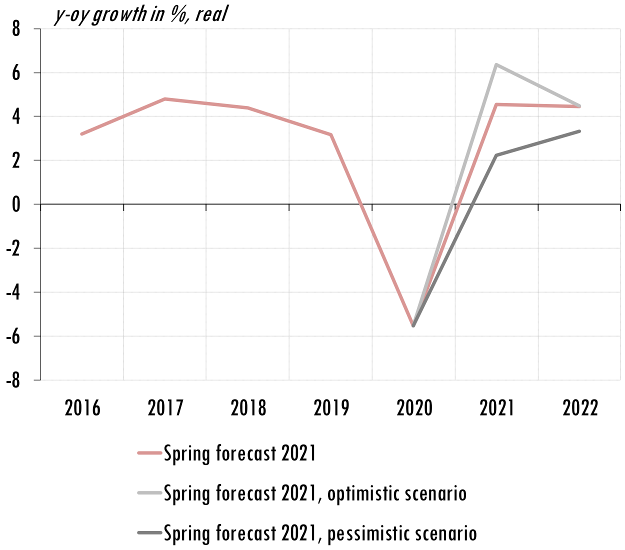
**In the risk analysis section of its forecast, IMAD presented two additional scenarios that also suggest the prevalence of negative risks.** The scenarios are asymmetric, since the absolute downward deviation from the pessimistic scenario is larger than the absolute upward deviation from the optimistic scenario with regard to the baseline scenario.[33] According to IMAD's baseline scenario and the Fiscal

**Figure 3.3: Bankruptcies in Slovenia in current crisis and in developed economies in recent and current crises**




*Note: Data for Slovenia refers to a total number of subjects deleted from the Slovenian Business Register due to bankruptcy.*
*Source: IMF World Economic Outlook Update January 2021 (Figure 6) and AJPES (Agency of the Republic of Slovenia for Public Legal Records and Related Services), FC calculations.*

**Figure 3.4: GDP growth scenarios**




*Source: IMAD, SORS, FC calculations.*

[32] For more information on global macroeconomic risks, see IMF (2021a).

[33] The scenarios in IMF (2021a; see Chapter 1, p. 22 – Scenario Box) are also asymmetric.

Council's calculations, GDP expressed in constant prices would reach the (2019) pre-crisis level in mid-2022.[34] In the pessimistic scenario, the pre-crisis level of GDP in 2022 would not be reached, while this level would be achieved in 2021 in the optimistic scenario, which is supposed to mainly reflect a more rapid stabilisation of the epidemiological situation. GDP in constant prices in all these scenarios in 2022 would lag behind the level it would have reached this year with the growth projected for the 2020–2022 period before the crisis (IMAD's autumn forecast from 2019): in the baseline scenario by about 5%, in the optimistic scenario by over 3%, and in the pessimistic scenario by as much as 8%. Therefore, this is the estimated GDP scarring for the given period.

**With negative risks prevailing in the macroeconomic scenario, the risks associated with the implementation of the fiscal scenario are also predominantly negative.** The risks associated with the fiscal scenario are mainly related to possible additional measures to mitigate the consequences of the epidemic and, at the same time, they depend on macroeconomic conditions. The already adopted discretionary economic policy measures with a negative impact on the state of public finances (see Table 2.1) and potential additional measures of this type, which are not directly or indirectly related to the epidemic, should also be taken into consideration in addition to the relatively low expenditure growth that is predicted in the second part of SP 21 projections.

**The risks associated with the fiscal scenario are multifaceted, while the implementation of some positive risks from the fiscal scenario could worsen the macroeconomic outlook as well.** Positive risks associated with the fiscal scenario are related to the planned extent of measures to contain the epidemic that could be smaller than projected. On several occasions during the epidemic, the Fiscal Council has stressed the importance of transparency regarding the expected and actual fiscal impact of measures to mitigate the consequences of the epidemic.[35] The funds for such measures projected in the SP 21 are relatively high for 2021, while the explanation of measures is relatively vague, which is partly understandable due to the uncertainty of future measures. The Framework Proposal 20_22 sets out the adoption of new and the extension of already enforced measures after the adoption of the 2021 state budget, amendments to other acts and the adoption of potential additional measures to contain the epidemic among the reasons that support a relatively wide extent of funds earmarked for COVID measures. At the same time, the national RRP, which the government is due to submit to the EC by the end of April and which should be harmonised with the SP 21 assessment, has not yet been adopted. Current forecasts indicate that the dynamics of spending of the EU funds in the SP 21 period will be considerably faster than past experience has shown. On the other hand, a potentially rapid pace of spending of the EU funds constitutes a risk to the efficiency of investment and the absorption capacity of the national economy (for example, see Box 2.3 in Fiscal Council (2020c) and Box 2.3 of this assessment).

**Considering the listed risks, which are directly or indirectly associated with the COVID-19 epidemic, attention should also be brought to the fiscal risks arising from other discretionary decisions that are unrelated to the crisis and are taken by economic policymakers.[36]** Such decisions affecting the structure of long-term fiscal results might include last year's and this year's amendments to the pension legislation and the amendments that will result in lower revenue according to the

[34] If an even distribution of the projected annual growth rate of real GDP in 2022 (4.4%) is used given the current dynamics over individual quarters.

[35] Transparency in this context includes, inter alia, publishing the calculations of potential fiscal consequences of major measures to contain the epidemic and publishing data on the realised fiscal impact related thereto. The Fiscal Council regularly publishes this data on its website. IMF (2021b) lists three methods used by individual countries to ensure a high level of transparency in the current conditions: (i) tracking COVID-19 spending using modified information systems, (ii) representing data related to COVID measures in regular publications and publishing details of public tenders, and (iii) regularly monitoring and auditing funds earmarked for measures.

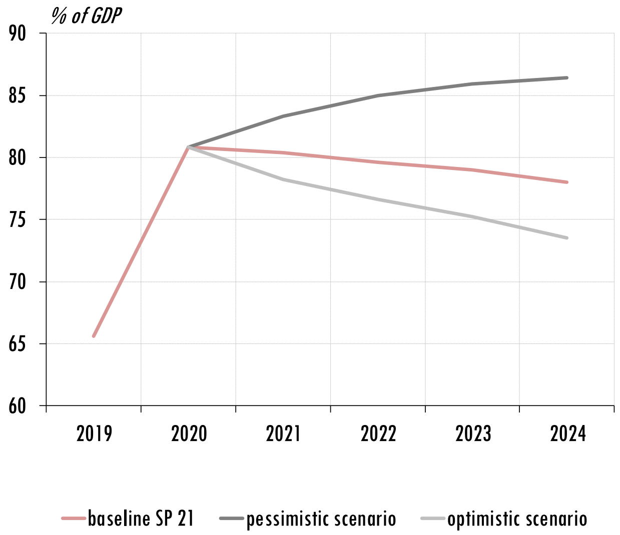
[36] For a quantified overview of such measures, see Table 2.1.

Ministry of Finance's estimates. The risk on the expenditure side of budgets is also represented by initiatives to change the single salary system or to exclude certain occupational groups from this system, which could put pressure on higher general government expenditure. Given such and similar requests in relation to the growth of social benefits and given that the policy cycle is in a mature phase, solutions should be sought that will solve problems not only in the short term, but also systemically, and that will be fiscally sustainable in the long run. The realisation of proposed tax reforms to introduce lower taxes and higher tax reliefs and to limit the payment of tax liabilities could pose at least an additional short-term risk on the revenue side. On the other hand, at least the short-term effects of proposals for a coordinated increase and harmonisation of tax rates at a global level would probably have exactly the opposite effect.[37]

**In the long term, the risks are related to financing conditions in times of high debt.** Due to the improved macroeconomic situation and the resulting reduced risk attributed to Slovenia by the securities investors, effective debt management by the Ministry of Finance's treasury, and recently due to the ECB's exceptionally accommodative monetary policy, the implicit interest rate already decreased significantly before the crisis and recorded historically low rates. The implicit interest rate projections depend on all the above factors and the time distribution of maturity of individual debt instruments. These are currently concentrated up to 2030 when approximately two thirds of all currently issued bonds fall due. In the case of a gradual tightening of the monetary policy, there is a possibility that the implicit interest rate and thus the cost of financing the public debt at maturity and with a potential need for refinancing the increased debt growth will increase.[38]

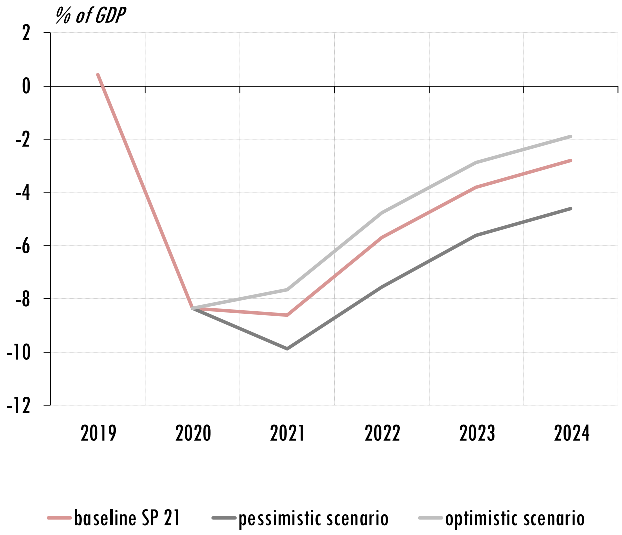
**Simulations indicate that should the risks concerning economic growth materialise, this could have a significant impact on the fiscal results in the coming years.** The trends of public finance aggregates based on the macroeconomic scenarios described above have been simulated. Note that simulations do not include a probable discretionary response of the fiscal policy that would follow the assumed economic shocks. If the pessimistic macroeconomic scenario should materialise, this would also

**Figure 3.5: General government debt scenarios**




*Source: MoF, SORS, IMAD, FC calculations.*

**Figure 3.6: General government balance scenarios**




*Source: MoF, SORS, IMAD, FC calculations.*

[37] See, for example, IMF (2021a).

[38] See Box 2.4 for the relation between low interest rates and debt and Box 4.1 for the consequences of increases in interest rate on the medium- and long-term public debt sustainability.

have a negative impact on the fiscal results,[39] because instead of falling below 80% of GDP, the general government debt could rise towards 90% of GDP in 2024 in the more pessimistic scenario; however, it would remain sustainable (see also Figure 2 based on the standardised shock in Box 4.1). The general government deficit in this scenario would exceed 3% of GDP in the entire simulation period. In the optimistic scenario with a faster economic growth, the debt could decline faster than projected in the baseline scenario, amounting to just over 70% of GDP in 2024, while the deficit would have fallen under the 3% of GDP threshold already in 2023.

[39] Simulations do not include a probable discretionary response of the fiscal policy that would follow such economic shocks. Simulations were carried out using a simple model which enables a simulation of the impact of various economic growth assumptions on public finances and of fiscal policy on economic growth. In this model, economic activity affects public finance through automatic stabilisers, and the fiscal policy affects economic activity reversely through multipliers. The Fiscal Council regularly implements this model to demonstrate the risks of changed macroeconomic circumstances. For a more detailed explanation of the model, see: http://www.fiscalcouncil.ie/wp-content/uploads/2012/09/FAR_Sept2012.pdf (Annex B).

## 4. Assessment of compliance with fiscal rules

**Key findings**

- Following the Government's requests in October 2020 and April 2021, the Fiscal Council established that, given the data available at the time of drafting these assessments, the conditions that are set out in the ZFisP and enable exceptional circumstances to be invoked will be met in 2021 and 2022, at least in part.
- In spite of the invocation of exceptional circumstances, the Fiscal Council adopted a position already in the beginning of the crisis that it will assess compliance with fiscal rules for the part of the budget that is not directly linked to the measures to mitigate the consequences of the pandemic, but depends rather on the cyclical position of the economy. Such an orientation provides for a clearer estimate of fiscal policy orientation, which is also consistent with the position of the EC. Due to the wide extent of crisis-related measures, the decision to (not) include the impact of such measures in the assessment of compliance with fiscal rules significantly affects the final assessment. The assessments of compliance of budget documents with fiscal rules are associated with high uncertainty.
- All indicators suggest substantial deviations of trends expected in the submitted budget documents from fiscal rules. This is mainly the result of discretionary measures which worsen the structural position of public finances. This applies particularly to 2021 and, to a somewhat lesser extent, to 2022 and for the entire assessment period if the part of investment expenditure, which is supposed to be financed with EU funds, is excluded.
- The deviations from fiscal rules in 2023 and 2024 are somewhat smaller; however, this finding is largely subject to doubts regarding the realism of the fiscal projections for these two years.

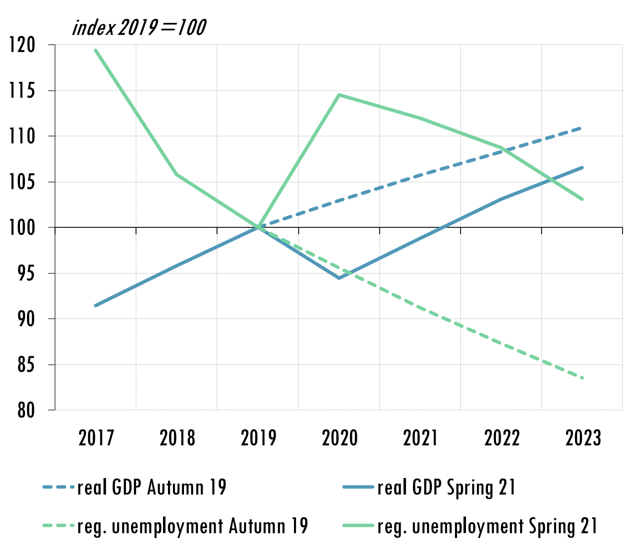
### 4.1 Bases for the assessment of compliance with fiscal rules

**Following the Government's requests in October 2020[40] and April 2021[41], the Fiscal Council established that, given the information and forecasts at the time of drafting particular assessment, in 2021 and 2022 at least one of two conditions will be met which enable exceptional circumstances to be invoked under Article 12 of the ZFisP.** Such a finding enables the enhanced flexibility of the fiscal policy in exceptional circumstances and the deviation from applicable rules to continue within the extent of measures aimed at mitigating the consequences of the unusual event, provided that this does not endanger medium term fiscal sustainability. Both findings on the fulfilment of conditions for invoking exceptional circumstances are subject to uncertainty and may change in the future. In light of both assessments, the Fiscal Council stressed that it will regularly check the existence of the stated conditions for invoking exceptional circumstances in the case of updated macroeconomic forecasts or assessment of future budget documents. The Government requested the assessment on the fulfilment of conditions for invoking exceptional circumstances to be conducted for 2021 and 2022, which is shorter than the SP 21 period (2021–2024). Considering the current projections, economic

[40] Fiscal Council (2020d).

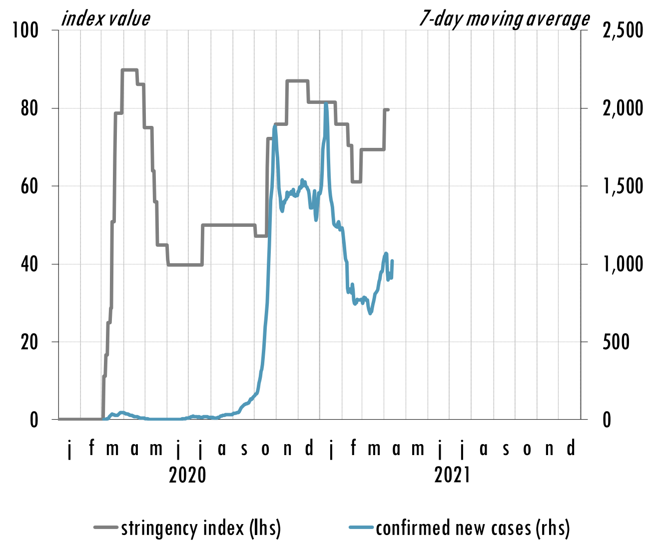
[41] Fiscal Council (2021c).

**Figure 4.1: Real GDP and registered unemployment**




*Source: SORS, Employment Service of Slovenia, IMAD forecasts, FC calculations.*

**Figure 4.2: Stringency and confirmed new cases**




*Source: OxCGRT, NIJZ, FC calculations.*

activity is expected to return to pre-crisis levels in 2022; however, the EU has yet to adopt guidance regarding the performance of the fiscal policy after 2022.[42] In the interim period, the EC (2021) also highlights the importance of qualitative indicators compared to the numerical indicators set out in legislation.

## 4.2 Assessment of compliance with fiscal rules in the budget documents

**In the given assessment of submitted budget documents, the Fiscal Council assesses the compliance of the trends of fiscal aggregates, not directly related with the crisis, with fiscal rules.** In spite of invoking exceptional circumstances and the resulting permitted temporary deviation from the medium-term balance, the ZFisP requires the Fiscal Council to prepare an assessment of the compliance of fiscal trends presented in the submitted budget documents with fiscal rules. Such compliance is verified for parts of general government balance that are not directly related to the crisis and must be consistent with the cyclical position of the economy. Such an approach is also compliant with the EC's orientation.[43] Estimates of the structural position or the public finances stance are associated with a high degree of uncertainty due to the risks related to the levels of input variables (see Box 4.2). Therefore, such estimates must be considered with a certain degree of caution; however, their results might provide guidance on fiscal policy orientation, especially if other indicators suggest similar findings. They might also serve as a warning to economic policymakers in decisions that change the fiscal policy orientation and which may thus affect the structural position of public finances after the crisis is over.

**In the present case, the assumption whether to include the fiscal effects of crisis-related measures among one-off measures is crucial to assess the compliance with fiscal rules for individual years.** This time, there is no doubt regarding the extent of effects; however, the question is whether the fiscal

[42] According to the EU's estimates, current data and forecasts suggest that the general escape clause will still apply in 2022; however, it should cease to apply in the subsequent years. The EC is expected to reach the final decision on this matter in May 2021, according to its updated macroeconomic forecasts. More information is available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_884

[43] See: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0123&from=EN.

impact of these measures should be included among the one-off measures (see Box 4.2). In its assessment of budget documents in spring 2020, the Fiscal Council has already taken the position that the crisis-related fiscal effects should be considered one-off measures.[44] These are therefore subtracted from the expenditure when determining the ceiling of general government expenditure, which means that they are subtracted from the assessment of the structural position of public finances due to their one-off nature.[45] Contrary to the guidance given to Member States at the beginning of the epidemic, in its assessment of draft budget plans in November 2020 the EC did not consider these effects one-off measures; however, it did note that the exclusion of temporary measures to mitigate the consequences of the epidemic more accurately illustrates the fiscal policy orientation.[46]

**In the given circumstances, additional complexity arises in the assessment of compliance with fiscal rules due to the multiple dimensions of circumstances that need be to taken into consideration.** In this case, the submitted budget documents cover both the period for which the exceptional circumstances apply according to the currently available data as well as the period for which, according to the current estimates, conditions set out in the ZFisP for invoking exceptional circumstances should cease to apply. At the same time, the submitted budget documents cover the period in which the economy is expected to make a rapid transition from a deep recession to a normal state, whereby fiscal policy should play an important role. The funds from EU instruments are also expected to make a significant contribution to this transition. All of the above requires an adjusted approach that will take into consideration the provisions of the ZFisP and the EU legislation and that will consider, at the same time, additional factors and indicators in the assessment of compliance with fiscal rules. Thereby, in the assessment of compliance of the submitted budgets documents with fiscal rules, the Fiscal Council wants to further limit the risks that such assessments are subject to even in normal circumstances.

**Exceptional circumstances allow for the temporary deviation from fiscal balance on average over the economic cycle.** One of the two conditions for assessing compliance of budget documents with fiscal rules referred to in Article 3 of the ZFisP is related to the position of the structural balance in the medium term. The condition of the medium-term equilibrium or surplus of the structural balance is thus distributed over the entire economic cycle period. In light of the above, Article 12 of the ZFisP, which determines the conditions for the occurrence of exceptional circumstances, permits a deviation from the medium-term fiscal balance, provided that this does not endanger fiscal sustainability in the medium term, if such a condition is met. It should be stressed that, considering the deviations of the structural balance in the 2021–2024 period, an exceptionally high structural surplus would be required after the crisis ends to achieve medium-term balance as currently stipulated by the ZFisP for the entire economic cycle. Considering the submitted budget documents, the currently available estimates of the cyclical position and the 10-year economic cycle period, such a surplus should total between 2% and 3% of GDP a year on average. According to current estimates, Slovenia has not recorded a structural surplus in the past 20 years.

**Calculations based on the current estimates of the economy's cyclical position indicate that Slovenia is not expected to achieve the minimum medium-term budgetary objectives (MTO) under the EU rules in the SP 21 projection period.** The assessment of compliance of budget documents with fiscal rules referred to in Article 3 of the ZFisP is related to the level of the structural balance in an

[44] The assumptions from the table shown in Box 2.1 increased for one-off and temporary measures, which are listed in Table 4 of the SP 21, were used in the calculations.

[45] For the definition of one-off measures, see EC (2019; Box 1.3) or EC (2015; Chapter 3.3.8.), where one-off measures are defined as a short-term increased expenditure of the general government to cover the costs of exceptional events, such as natural disasters or other events beyond the control of the government.

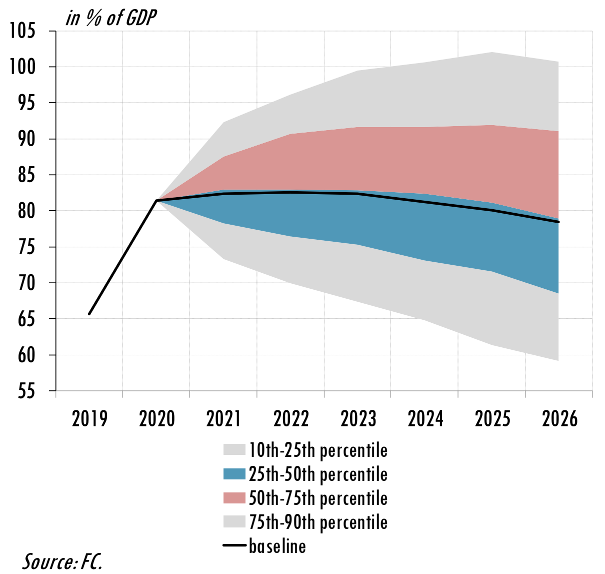
[46] See EC (2020c, p. 9).

**Box 4.1: General government debt of Slovenia: medium-term sustainability and long-term simulations**[1]

**A debt sustainability analysis indicates the country's ability to finance liabilities underlying the orientation of the past and future fiscal policy in the context of certain macroeconomic and fiscal shocks.** In analysing the debt sustainability based on the procedure developed by the International Monetary Fund,[2] a baseline scenario based on macroeconomic and fiscal projections is first developed, followed by several alternative scenarios, which show the responsiveness of debt to various shocks. The responsiveness and the changes in the dynamics and levels of the general government debt indicate the state's vulnerability in the event of shocks, which are not included in the baseline scenario; however, the actual shocks may deviate from the ones used in the analysis both in terms of their direction and size.

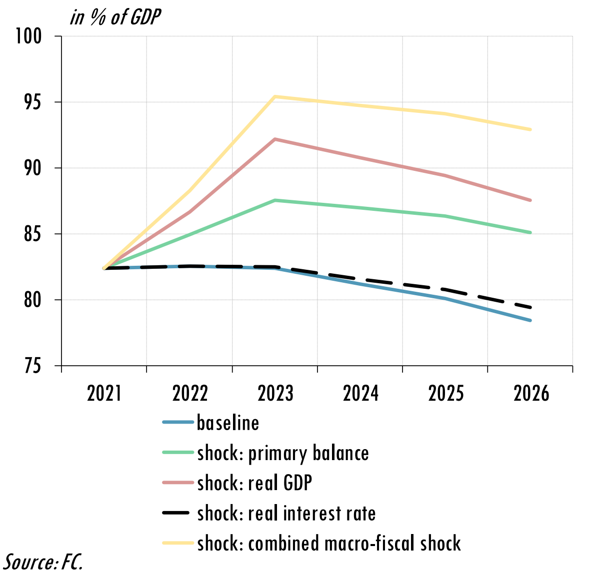
**In the medium-term debt sustainability analysis, the baseline scenario of the SP 2021 and IMAD's spring forecast from 2021 were taken into consideration.** The analysis covers the 2021–2026 period. The projections of fiscal aggregates from the end of the SP 21 projection period (2024) until the end of the analysed period were populated by the standard elasticities for revenue, while expenditure was calculated by taking into account that the difference between revenue and expenditure growth was similar to the 2010–2019 period. The baseline scenario also considered the assumption that the high balance of cash and deposits (treasury single account balance) in 2021 and 2022 is reduced by EUR 1 billion a year. The medium-term debt sustainability analysis contains several alternative scenarios, in which shocks are determined by standard sizes, which are primarily related to the historical fluctuations of variables subject to shocks in these scenarios. Shocks in the alternative scenario of a lower real GDP growth are set at one standard deviation of real GDP growth in the 2011–2020 period, where the elasticity of the response of inflation and interest rate to the change in the GDP growth and the worsening of primary budget balance for 0.25/−0.25 is taken into account. According to this scenario, real GDP would only grow by 1% a year (given the assumptions used in the baseline scenario, the growth of real GDP is expected to be at around 4%) in 2022 and 2023. The scenario of a worsened primary budget balance is also based on a long-term deviation and the response of interest rate in the same extent as in the case of a real GDP shock. Following such a scenario, the primary balance deficit in the 2022–2023 period would be approximately twice as high as the baseline scenario deficit. Interest rate shock is implemented by increasing the interest rates from the baseline scenario by a rate of 200 basis points in the 2022–2026 period.

**Figure 1: Probability distribution of general government debt projections**




Source: FC.

**Figure 2: General government debt response to shocks**



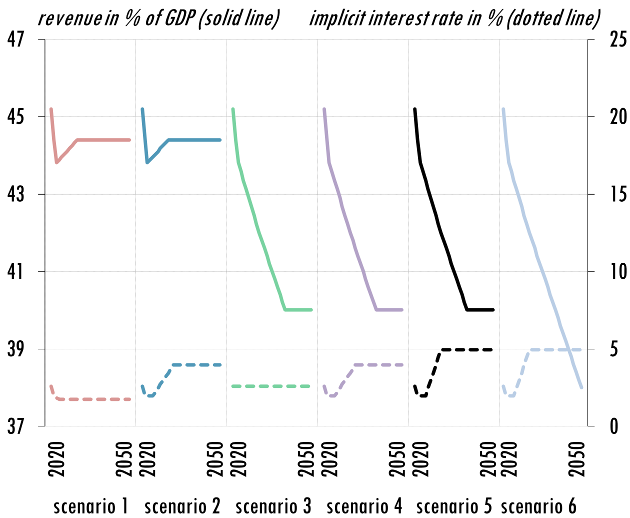

Source: FC.

**The analysis indicates the sustainable dynamics of the general government debt in the medium-term with regard to certain risks in case of some shocks.** Risks are asymmetric and skewed upwards in the projected debt distribution (see Figure 1). The assessment of the risks to debt sustainability in the medium term is primarily based on potential slower economic growth, while a deteriorated primary balance would also have an impact on a higher risk assessment. In the above cases, the debt could reach a level close or equal to 90% of GDP, whereas in the case of a combined macroeconomic and fiscal shock, the debt could rise to around 95% of GDP. The results of the additional simulation related to the potential realisation of implicit liabilities reveal that the general government debt would become unsustainable and that high risks to its sustainability would arise already in the medium term. This would occur if, for example, in the individual year of the observed period a shock at around 3% of GDP (EUR 1.4 billion) would arise or if such shocks would amount close to or just under 1% of GDP (EUR 0.5 billion) each year.

**Long-term simulations indicate a high probability of unsustainable debt trends if no action is taken with regard to social security systems.** In particular, this applies if the continued increase in expenditure related to the ageing population is accompanied by a gradual tightening of the monetary policy, while other future fiscal costs, such as costs related to climate change, were excluded from the analysis.

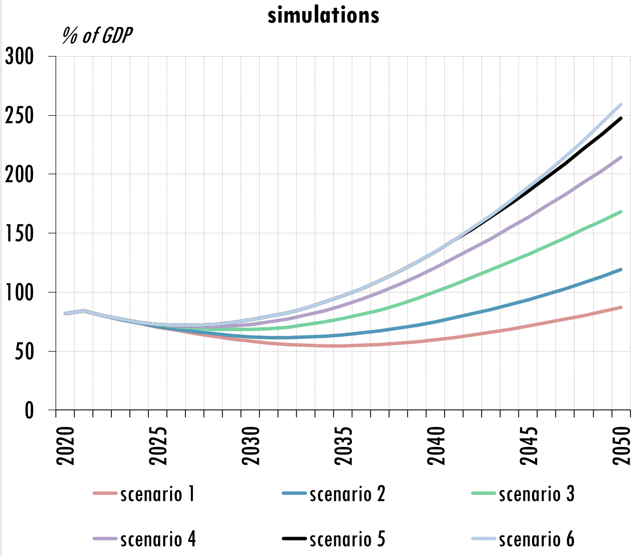
**In addition to our default assumption on expenditure, the assumptions on the difference between the interest rate and economic growth together with trends in general government revenue play a crucial role in these long-term simulations.** In all scenarios, the default values of revenue, expenditure and debt-to-GDP ratio for 2020 and 2021 as the starting years of the simulations were taken from the 2021 Draft Budgetary Plan.[3] The assumption on the implicit interest rate was adjusted in accordance with the potential aggregate change of two variables: risk-free interest rate and risk premium.[4] The assumption on the economic growth for 2021 and 2022 is based on IMAD's forecast. For the years remaining until the end of the decade, a real GDP growth of 3% was assumed, followed by a growth in accordance with the projections of the 2019 Stability Programme. It was assumed that the GDP deflator would grow at a rate of 2% a year throughout the entire simulation period. The entire primary expenditure dynamics are based on the long-term projections of the trends in general government expenditure related to an ageing population, which are taken from the last Ageing Report (EC, 2018).[5] The assumption on revenue is related exclusively to the potential consequences of ageing on the size of the economically active population. The simulations presented below are not forecasts, because they take into consideration the assumption of the unchanged policy. Therefore, long-term simulations primarily offer an overview of potential trends of the general government debt

**Figure 3: Long-term scenario assumptions**




*Source: 2020 and 2021 - MoF DBP21, rest of the period FC assumptions.*

**Figure 4: Long-term general government debt simulations**




*Sources: DBP21 and FC assumptions, FC calculations.*

in the long term with the realisation of exogenous assumptions used and thus reflect the risks to which the general government debt might be subject.

**The assumptions on the shares of revenue, primary expenditure and implicit interest rate are determined in such a manner that would enable as wide a range of reasonable scenarios as possible.** In the scenarios featuring an increase in interest rates, the increase only starts in 2025. The highest level of the assumed implicit interest rate in Scenarios 5 and 6 is just under 5%. That is around 0.3 p. p. under the highest level of implicit interest rates reached in the 2011–2020 decade. Given the current situation and forecasts, there is an increased probability of the normalisation of interest rates and of a decline in the general government revenue, which is why the scenarios using such assumptions are assessed as more likely to materialise. Therefore, Scenario 4 is assessed to be the most probable scenario, followed by Scenarios 3, 5 and 6 as somewhat less likely. In all long-term scenarios presented, a favourable difference between the interest rate and economic growth is assumed, which is negative at least until 2030 (Scenarios 5 and 6) and throughout the entire period until 2050 in Scenarios 1 and 2.

**The results of long-term general government debt simulations indicate high risks to debt sustainability due to changed macroeconomic and demographic circumstances.** Given the assumptions used, a relatively large spread of results in the simulations of debt-to-GDP ratio, which lies between 90% and 250% in 2050 or over 150% of GDP in the more realistic scenarios, is understandable. With the realisation of the expected cost of the ageing population in the form of increased general government expenditure, the simulations also indicate the vital importance of revenue, which, for example, can be seen in the difference between the results of Scenarios 2 and 4. At the same time, with revenue levels remaining the same, the differences between Scenario 1 and 2 show the importance of interest rate trends for the dynamics of the general government debt or, to an even greater extent, this can be seen in the differences between Scenarios 3 and 5, assuming a decline in revenue. Accordingly, the results of scenario simulations, with the exception of the less likely Scenarios 1 and 2, point to the risks to the long-term sustainability of the general government debt. These risks become even more obvious if the unfavourable fiscal consequences of demographic trends on the expenditure and revenue side are joined by an exogenous or – in the worst-case scenario – an additional endogenous tightening of financing conditions.

[1] A more comprehensive analysis including a detailed methodology analysis is available in Fiscal Council (2021b).

[2] The currently available basis is available at: https://www.imf.org/external/pubs/ft/dsa/mac.htm The IMF (2021c) suggests the development of an updated framework for the debt sustainability analysis, which will also include short-term indicators and the elements of a long-term (ten-year) debt sustainability analysis. It is precisely the IMF framework that is used by most independent fiscal institutions in the EU to analyse medium-term debt sustainability. For details on the current use of methodologies in the analyses of debt sustainability performed by independent fiscal institutions, see EU IFI (2021).

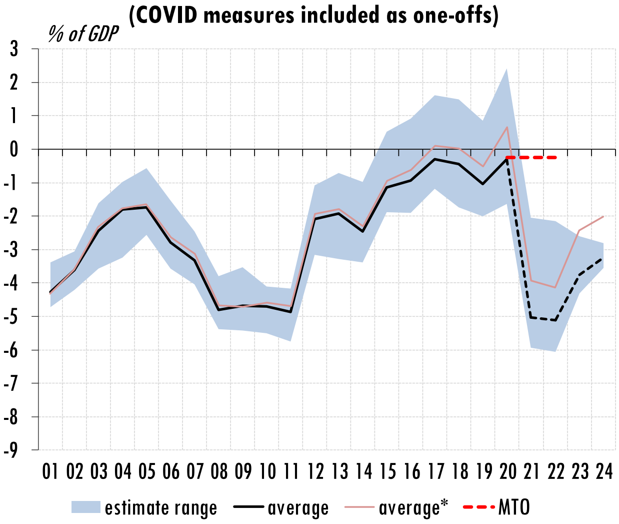
[3] With regard to the Draft Budgetary Plan 2021, the extent of changes to the variables referred in the SP 21 does not substantially affect the results of long-term simulation. Long-term projections are a common integral part of every Stability Programme.

[4] The analysis does not explicitly consider the possibility of a change to risk premium (which is usually measured as a surcharge on the risk-free interest rate, e.g. on the key rate of the monetary policy or the required yield of German government bonds) due to the changed debt levels. Due to the usually non-linear correlation between the debt level and the risk premium (see, for example, European Commission, 2020b: p. 53) and the reverse effects of the premium on the debt, it can be assumed that the results of debt simulations – especially for higher levels of debt – are probably underestimated. In general, the analysis is very simplified and, *inter alia,* does not take into consideration the situation and potential changes to the debt maturity structure. Due to a long analysis period, which considerably exceeds the average maturity of the Slovenian state budget debt (which according to the Ministry of Finance's data was 9.6 years at the end of January 2021), the effects of this element are less important in this context compared to, for example, a medium-term debt sustainability analysis.

[5] The SP 21 contains the values of such expenditure from the Ageing Report (2021), which is yet to be published. The change to ageing-related expenditure in this report totals 7.6 p.p. of GDP between 2020 and 2070. In our analysis, an increase of 6.4 p.p. of GDP was used for the same period.

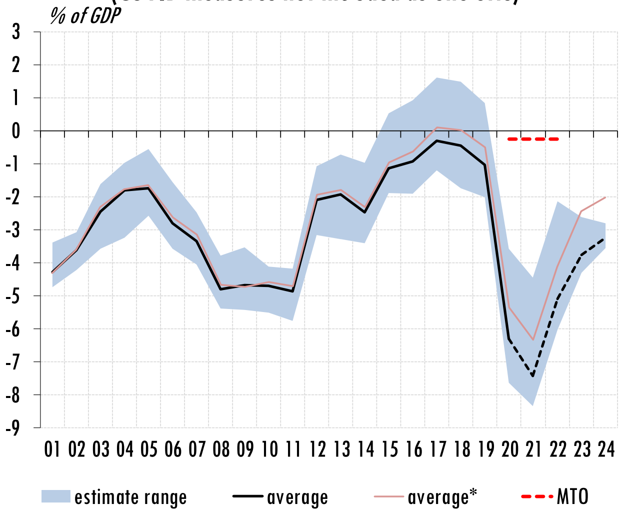
individual year. This balance should reach at least the level of the minimum value as defined in the ratified international treaty on stability, coordination and governance in the economic and monetary union (Stability and Growth Pact, SGP). The MTO value for the 2020–2022 period totals −0.25% of GDP, while current estimates indicate a structural balance deficit of around −2% to −3% of GDP in 2024 in spite of a decrease in the SP 21 period. This finding implies that Article 15 of the ZFisP, which in accordance with the European legislation determines the structural effort required to gradually reach the MTO, applies to the assessment of compliance with fiscal rules. Considering the

**Figure 4.3: Structural balance estimates (COVID measures included as one-offs)**




*Sources: SORS, OECD, IMF, IMAD, EC, MoF, FC. * Based on output gap estimated on the basis of potential output growth estimates from autumn 2019 and current GDP forecast (see also Box 4.2 and note under Table 5.2.).*

**Figure 4.4: Structural balance estimates (COVID measures not included as one-offs)**




*Sources: SORS, OECD, IMF, IMAD, EC, MoF, FC. *Based on output gap estimated on the basis of potential output growth estimates from autumn 2019 and current GDP forecast (see also Box 4.2 and note under Table 5.2.).*

changes to variables determining the MTO's value, mainly higher general government debt levels and changes to the pension legislation, the MTO could increase (based on current calculations) in the upcoming period (2023–2025), which partly overlaps with the current SP 21 projection period.

**Requests for adjustment and for achieving structural balance depend or will depend on whether a country will be subject to either the corrective or the preventive arm of the SGP.** Until an Excessive Deficit Procedure (EDP) is triggered against a state due to a significant deviation from the upper limit of the general government balance (−3% of GDP) or for failing to catch up with the debt criterion (60%), the state is in the preventive arm of the SGP. In the preventive arm of the SGP, which currently also applies for Slovenia, an annual adjustment of the general government's structural balance is required based on the debt level, its long-term sustainability and the assessment of the cyclical position.[47] When the EC establishes that a certain Member State significantly deviates from these criteria based on projections or actual balance or – in the case of general government debt – actual data, the Council of the European Union triggers the EDP.[48] In this context, the Member State must commit to eliminate the excessive deficit in the agreed period, in which the pace of adjustment is determined by the Council of the European Union, and regularly report on the progress in achieving the MTO under the procedure.[49]

**According to currently available estimates, the total deterioration of the fiscal policy in 2021 and 2022 is estimated at around 4 p. p. of GDP.** The primary structural balance is projected to shift from a relatively high surplus maintained over the last eight years, including 2020, to a significant deficit in 2021. According to this indicator, the fiscal policy will be significantly expansive in 2021 and 2022, in terms of both structural balance and primary structural balance. Such an orientation is

[47] Based on matrix in Box 1.6 in EC (2019). According to that matrix and regarding the current estimates of the stated variables, the required effort would amount to 0.5 p.p. of GDP (2021) or to at least 0.5 p.p. of GDP (2022-2024).

[48] It is desirable for the country to be in the preventive arm of the SGP or to remain in the corrective arm for a short term and thus do not deviate from other countries. The latest available forecasts (which do not correspond to the ESA methodology, but still enable a comparison between the countries) published by the IMF (2021a) and shown in Figure 2.8 indicate that the deficit and the change to the general government deficit in Slovenia is supposedly among the highest in the EU.

[49] Very similar to these commitments are the provisions of Article 14 of the ZFisP, which stipulate the operating principle of the correction mechanism after exceptional circumstances have ceased to exist.

**Table 4.1: Previous framework and the framework proposals for the preparations of general government budgets**

| | General govenment | | State budget | | Local government | | Pension fund | | Health fund | |
|---|---|---|---|---|---|---|---|---|---|---|
| | targ.bal. | max E | targ.bal. | max E | targ.bal. | max E | targ.bal. | max E | targ.bal. | max E |
| | GDP % | EUR million | GDP % | EUR million | GDP % | EUR million | GDP % | EUR million | GDP % | EUR million |
| Framework, November 2020 (OG 168/2020) | | | | | | | | | | |
| **2021** | -6.6 | 24,900 | -5.7 | 13,520 | 0.1 | 2,440 | 0.0 | 6,180 | 0.0 | 3,525 |
| **2022** | -4.6 | 24,950 | -3.2 | 12,650 | 0.1 | 2,430 | 0.0 | 6,530 | 0.0 | 3,725 |
| Poposed Changes to Framework, April 2021 | | | | | | | | | | |
| **2021** | -8.6 | 25,300 | -8.6 | 14,320 | 0.1 | 2,440 | 0.0 | 6,250 | 0.0 | 3,525 |
| Proposed Framework, April 2021 | | | | | | | | | | |
| **2022** | -5.7 | 25,040 | -4.9 | 13,300 | 0.1 | 2,405 | 0.0 | 6,300 | 0.0 | 3,720 |
| **2023** | -3.8 | 25,045 | -3.6 | 13,060 | 0.1 | 2,410 | 0.0 | 6,480 | 0.0 | 3,745 |
| **2024** | -2.8 | 25,430 | -2.5 | 12,730 | 0.1 | 2,415 | 0.0 | 6,675 | 0.0 | 3,850 |
| Difference | | | | | | | | | | |
| **2021** | -2.0 | 400 | -2.9 | 800 | 0.0 | 0 | 0.0 | 70 | 0.0 | 0 |
| **2022** | -1.1 | 90 | -1.7 | 650 | 0.0 | -25 | 0.0 | -230 | 0.0 | -5 |

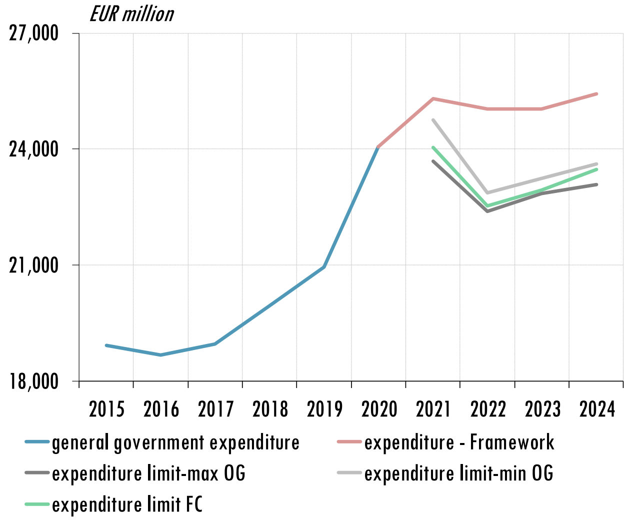
*Source: Official Gazette of the Republic of Slovenia, framework proposals April 2021.*

adequate when the cyclical position of the economy is considered; however, the structure of counter-cyclical operation in a certain (non-investment) part does not contribute towards enhancing the growth of long-term economic potential and considerably worsens the structural position of public finances in the medium-term (see Table 2.1).

**The Fiscal Council's indicative estimates show that the structural effort as required by the preventive arm of the SGP could be achieved in the second half of the SP 21 projection period if adequate additional measures were adopted.** According to various estimates, the changes to the structural balance are expected to range from −0.7 to 0.9 pp of GDP on average in the entire SP 21 period from 2021 to 2024. Considering the SP 21 projections, the structural effort value in the 2023–2024 period is forecast to be almost twice as large as the required effort value. This finding is based primarily on highly favourable assumptions about the trends of some fiscal aggregates, whereby these assumptions from the submitted budget documents are not supported by credible measures or deviations from current policies (see also Chapter 2).

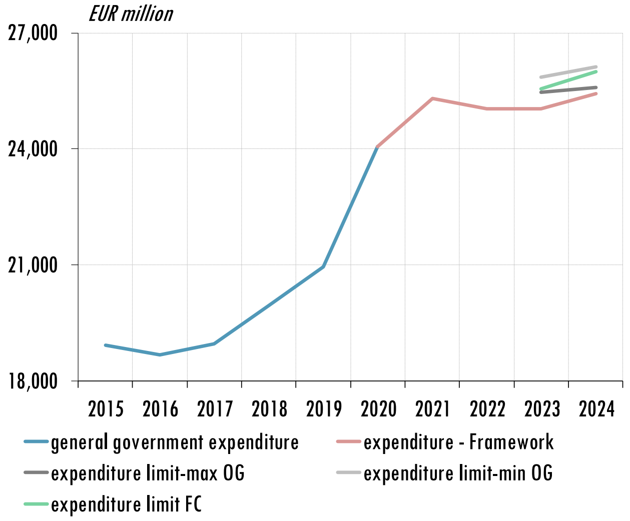
**Despite the possibility of a temporary deviation from the medium-term fiscal balance due to exceptional circumstances, the Government must determine the permissible extent of expenditure.** In accordance with Article 13 of the ZFisP, it can do this by revising the framework for the preparation of general government budgeting (the Framework Proposal 20_22), which the government submitted to the Fiscal Council for assessment together with the Framework Proposal 22_24. Both framework proposals contain revised estimates of general government sector expenditure for 2021 and 2022 and proposals for this expenditure for 2023 and 2024. The changes in both framework proposals for 2021 and 2022 relate primarily to the state budget and, to a lesser extent, to the other public finance budgets (see Table 4.1). The Fiscal Council examines what is the maximum permissible level of general government expenditure in the 2021–2024 period, whereby it also verifies whether the part of expenditure determined in the framework proposals is adequate in relation to the state of the economic cycle, which illustrates the structural orientation of the fiscal policy. Given that the minimum permitted structural balance according to the EU rules (MTO) is not achieved, the Fiscal Council assesses whether the expenditure set out in the framework proposals enable the MTO to be adequately pursued as defined by Article 15 of the ZFisP. In accordance with its competences, the

**Figure 4.5: General government expenditure in Frameworks and maximum level of expenditure (initial year 2020)**




*Source: SORS, MoF, FC calculations.*

**Figure 4.6: General government expenditure in Frameworks and maximum level of expenditure (initial year 2022)**




*Source: SORS, MoF, FC calculations.*

Fiscal Council does not assess the appropriateness of expenditure related to the remedy of the effects of the epidemic.

**The extent of general government expenditure was estimated by the Fiscal Council in accordance with legislation using an adjusted formula.** In the calculations of the baseline scenario, in addition to the default level of general government revenue implicitly derived from the framework proposals and the SP 21, the estimate of the extent of one-off or temporary measures, which largely relate to the measures to limit the consequences of the epidemic, was also taken into account. The range of output gap estimates, which are used by the Fiscal Council to assess the cyclical position of the economy, was also considered. In line with the estimate that the minimum permitted structural balance under EU rules (MTO) is not achieved in the SP 21 projection period, an adjusted formula referred to in paragraph 3 of Article 3 of the ZFisP was applied in the calculations (see Box on p. 26, Fiscal Council (2018b).

**The assessments on the adequacy of the maximum expenditure level differ substantially with regard to the base year of the calculation and the inclusion of COVID measures among one-off measures.** When 2022 is taken as the base year, in which the conditions for invoking exceptional circumstances are no longer expected to be met, no deviations are observed in 2023 and 2024 based on the given assumptions. The outcome is also very similar when the average estimates of both methods for calculating output gap are taken into consideration (see Box 4.2). It should be stressed that the estimates of the general government expenditure ceiling indicate significant deviations in the framework proposals within the first period of SP 21 projections. This major deviation will primarily be the result of a substantially high level of expenditure, which is unrelated to the epidemic in 2021 and is of a structural nature. Consequently, this high level of expenditure is carried over into all subsequent years. When 2020 is set as the base year and the effects of measures are deemed one-off measures, the average annual deviation of expenditure as forecast in the framework proposals exceeds the permitted expenditure ceiling in the 2021–2024 period by just under EUR 2 billion. On the other hand, when COVID measures are not included among one-off measures, the expenditure could be, on average, higher by around EUR 600 million compared to the expenditure from the framework proposals. In 2021 and 2022, the ceiling is expected to be exceeded by around three times more

**Table 4.2: Maximum general government expenditure based on initial year 2020**

| | 2021 | 2022 | 2023 | 2024 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|
| | one-offs Fiscal Council | | | | one-offs MoF | | | |
| Revenue share (% of GDP); SP 21 | 43.3 | 43.0 | 42.5 | 41.9 | 43.3 | 43.0 | 42.5 | 41.9 |
| Required structural effort (GDP p.p.) | ... | ... | 0.5 | 0.1 | .... | ... | 0.5 | 0.0 |
| Balance share (% of GDP); FC simulation | -3.9 | -0.8 | 0.1 | 0.6 | -7.5 | -6.9 | -5.9 | -4.9 |
| Output gap (% of potential GDP); FC estimate | -2.4 | -1.0 | 0.1 | 1.1 | -2.4 | -1.0 | 0.1 | 1.1 |
| One-offs (% of GDP) | -2.5 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Structural balance (% of GDP); FC simulation | -5.2 | -0.5 | 0.0 | 0.0 | -6.3 | -6.3 | -5.8 | -5.4 |
| GPD (EUR million); SP 21 | 48,453 | 51,345 | 54,026 | 56,801 | 48,453 | 51,345 | 54,026 | 56,801 |
| A. Maximum expenditure (EUR million); FC simulation | 24,051 | 22,533 | 22,948 | 23,539 | 24,635 | 25,641 | 26,195 | 26,664 |
| B. Expenditure level SP 21 (EUR million) | 25,300 | 25,045 | 25,045 | 25,430 | 25,300 | 25,045 | 25,045 | 25,430 |
| Difference A-B (mio EUR) | -1,249 | -2,512 | -2,097 | -1,891 | -665 | 596 | 1,150 | 1,234 |
| Memo: | | | | | | | | |
| Investment - EU funds (SP 21; EUR million) | 360 | 491 | 502 | 469 | 360 | 491 | 502 | 469 |

**Table 4.3: Maximum general government expenditure based on initial year 2022**

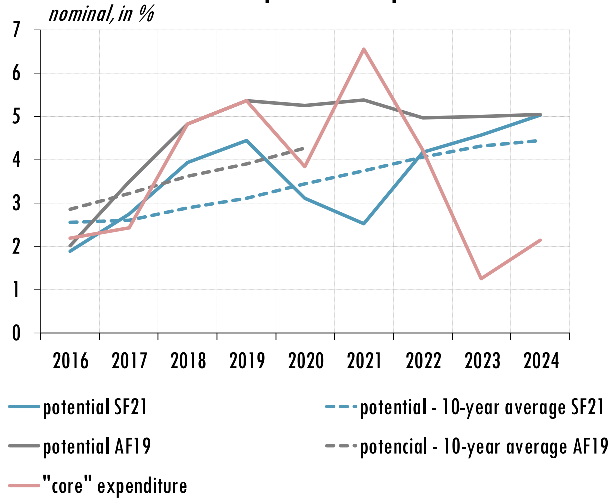
| | 2023 | 2024 | 2023 | 2024 |
|---|---|---|---|---|
| | one-offs Fiscal Council | | one-offs MoF | |
| Revenue share (% of GDP); SP 21 | 42.5 | 41.9 | 42.5 | 41.9 |
| Required structural effort (GDP p.p.) | 0.5 | 0.5 | 0.5 | 0.5 |
| Balance share (% of GDP); FC simulation | -4.5 | -3.5 | -4.5 | -3.5 |
| Output gap (% of potential GDP); FC estimate | 0.1 | 1.1 | 0.1 | 1.1 |
| One-offs (% of GDP) | -0.1 | -0.1 | -0.1 | -0.1 |
| Structural balance (% of GDP); FC simulation | -4.6 | -4.1 | -4.5 | -4.0 |
| GPD (EUR million); SP 21 | 54,026 | 56,801 | 54,026 | 56,801 |
| A. Maximum expenditure (EUR million); FC simulation | 25,427 | 25,844 | 25,374 | 25,789 |
| B. Expenditure level SP 21 (EUR million) | 25,045 | 25,430 | 25,045 | 25,430 |
| Difference A-B (mio EUR) | 382 | 414 | 329 | 359 |
| Memo: | | | | |
| Investment - EU funds (SP 21; EUR million) | 502 | 469 | 502 | 469 |

*Note: The difference between both scenarios is represented by the assumption on (non) inclusion of direct impact of COVID related measures as one-offs (see Box 4.2). Output gap is based on the averages of output gap estimates, used by FC. See box on p. 26 in Fiscal Council (2018b) for its calculation.*
*Sources: SORS, IMAD, FC; FC calculations.*

than in 2023 and 2024 on average. Similarly wide is also the range of deviations based on the calculations using the lower and upper range of output gap estimates, which total around EUR 600 million in the entire period on average, being especially high in 2021. Even when all current uncertainties related to such estimates (see Box 4.2) are considered, the estimates suggest a high probability that the actual expenditure will be too high in relation to the forecast cyclical situation of the economy due to the above doubts about the feasibility of projections. This finding also applies when the part of investment expenditure that is supposed to be financed with EU funds is excluded from the calculation.

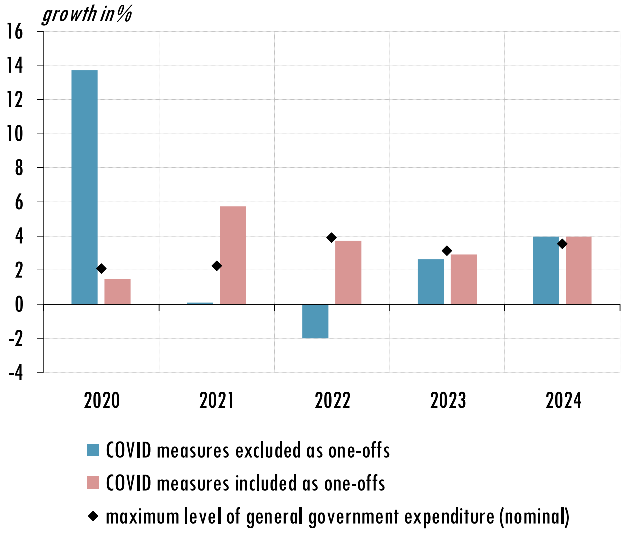
**Alternative indicators of growth and level of net expenditure suggest a high growth in 2021.** Without observing the impact of COVID-19 measures, investment and interest expenditure, the

**Figure 4.7: Growth of "core" general government expenditure and the potential output**




*Opomba: ""Core"expenditure is general government expenditure excluding COVID-19 related expenditure, investment and interest expenditure.*
*Source: SORS, MoF, IMAD, FC calculations.*

**Figure 4.8: Growth of net expenditure (expenditure rule according to EU legislation)**




*Source: MoF, IMAD, FC calculations.*

planned growth of expenditure in 2021 is expected to exceed the growth of the long-term economic potential, estimated both currently and pre-crisis (see Figure 4.6). Afterwards, the growth of such defined expenditure is expected to be equal or to fall below the currently estimated growth of economic potential, which indicates a gradual shift to a counter-cyclical restrictive policy, which in light of the expected cyclical trends enables the stabilisation path of the fiscal policy. The assessment on the adequacy of net expenditure growth under the European expenditure rule also depends on the decision to (not) include the effect of measures to mitigate the consequences of the epidemic. If these effects are considered one-off measures, which according to the Fiscal Council's assessment and the EC's guidance more accurately illustrates the fiscal policy orientation, the growth of net expenditure is expected to substantially exceed the permitted ceiling in 2021 and remain close to the ceiling in the following three years. In this context, the Fiscal Council reiterates the above doubts about the feasibility of the projected expenditure in the second part of the period covered by the SP 21 (2022–2024) and the Framework Proposal 22_24.

**Slovenia will fail to comply with the debt rule in the SP 21 projection period.** Pursuant to the rules of the Fiscal Pact laid down in the preventive arm of the Stability and Growth Pact, the general government debt exceeding 60% of GDP must be reduced in line with the 1/20 rule. This rule pertains to the yearly dynamics of reduction that in a three-year average must correspond to a 1/20 deviation from the base-year debt level of 60% of GDP in the period from 2020 to 2024. In the case of Slovenia, this is expected to be slightly below 1 pp of GDP per year. The SP 21 projections indicate that the debt ratio is expected to decline by 0.7 pp of GDP per year on average. A somewhat higher than requred reduction is forecast only in 2024 (−1 pp of GDP).

**Box 4.2: Uncertainties in estimating the maximum permissible level of expenditure**

**The expenditure ceiling for the general government sector, which sustains the medium-term balance, is determined in the Framework in view of the expected level of revenue and of the established cyclical position of the economy.** The expenditure ceiling is calculated in accordance with the mathematical formula set out in paragraphs three and four of Article 3 of the ZFisP, depending on the cyclical position at the time of drafting the assessment. The planned level of expenditure does not include temporary or one-off expenditures.

**In setting the maximum possible expenditure ceiling, numerous ambiguities arise in the current situation, thus the following factors were observed in the calculation:**

- The uncertainty about assessing the output gap is particularly high in the context of stronger fluctuations in economic activity.[1] The Fiscal Council prepares its own output gap estimate on the basis of the average estimates of other institutions and statistical methods. This time, the uncertainties related to the point estimate of the output gap, in addition to the usual spread of the minimum and maximum estimates of the output gap,[2] were complemented with the output gap estimate based on the assumption of the unchanged growth of potential output in respect to the pre-crisis period. In doing so, the aim was to limit the uncertainty related with the output gap estimate, which arises from potential structural or permanent changes to the economy due to the epidemiological crisis and the related restrictive measures. Nevertheless, the output gap estimate plays a less crucial role in the current assessment than it usually does due to the exceptionally large extent of measures to mitigate the consequences of the epidemic.
- The value of temporary or one-off measures is one of the main variables that influence the determination of the maximum permissible level of expenditure not depending on cyclical factors. Since the extent of the temporary measures to mitigate the consequences of the epidemic is exceptionally large, the method of including these measures in the calculations materially affects the results of these calculations.[3] The assessment of the Fiscal Council regarding the value of one-off or temporary measures is determined on the basis of data on budget components which are related to the COVID-19 measures and which were included in the preparation of the framework proposals and of the SP 21.

[1] For example, see Box 1.1 in Fiscal Council (2020).

[2] The difference between the maximum and minimum estimates of the output gap is exceptionally large in 2021 and 2022, being approximately double the long-term average (2000–2019). The EC, IMF and OECD estimates for 2023 and 2024 were not available, which further increases uncertainty regarding the amount of maximum allowable expenditure.

[3] For example, the decision to include fiscal effects of such measures among one-off measures crucially affects the assessment of the changes to the structural position of the fiscal policy. Considering these effects as one-off measures in the assessment indicates a substantial easing of the fiscal policy in 2021, while the structural position is expected to improve in 2020. On the contrary, not including such one-off measures results in the substantial easing of the fiscal policy already in 2020 and an additional easing of around a quarter of the easing of the previous year also in 2021.

## 5. Statistical annex

**Table 5.1: Comparison of macroeconomic projections for 2021 and 2022**

| | 2021 | | | | | | | 2022 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | EC (Nov.20) | OECD (Dec.20) | BoS (Dec.20) | IMAD (Dec.20) | EC (Feb.21) | IMAD (Mar.21) | IMF (Apr.21) | EC (Nov.20) | OECD (Dec.20) | BoS (Dec.20) | IMAD (Dec.20) | EKC (Feb.21) | IMAD (Mar.21) | IMF (Apr.21) |
| **GDP** | 5.1 | 3.4 | 3.1 | 4.3 | 4.7 | 4.6 | 3.7 | 3.8 | 3.5 | 4.5 | 4.4 | 5.2 | 4.4 | 4.5 |
| Exports of goods and services | 7.6 | 5.6 | 7.2 | 7.6 | | 8.6 | 7.8 | 5.4 | 6.9 | 6.8 | 8.6 | | 7.3 | 7.7 |
| Imports of goods and services | 7.9 | 4.7 | 9.2 | 9.3 | | 8.8 | 9.7 | 5.9 | 7.7 | 7.3 | 9.5 | | 8.1 | 9.4 |
| External trade balance, contrib. to growth | 0.4 | 1.1 | -0.8 | -0.5 | | 0.7 | | 0.1 | 0.2 | 0.2 | 0.0 | | 0.1 | |
| Private consumption | 5.4 | 2.2 | 4.3 | 4.1 | | 4.0 | | 4.5 | 3.4 | 4.4 | 4.6 | | 4.7 | |
| Government consumption | 3.0 | 3.5 | 2.0 | 2.4 | | 2.4 | | -1.1 | 2.0 | 1.3 | 1.6 | | 1.7 | |
| Gross fixed capital formation | 7.1 | 2.4 | 7.3 | 10.0 | | 9.0 | | 8.5 | 7.1 | 9.1 | 8.5 | | 8.0 | |
| Changes in inventories, contrib. to growth | 0.0 | 0.3 | 0.0 | 0.3 | | -0.3 | | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | |

*Sources: IMF, European Commisionn (EC), OECD, Bank of Slovenia (BoS), IMAD.*

**Table 5.2: Output gap estimates**

| | IMF (Apr. 21) | European Commission (Nov. 20) | OECD (Dec. 20) | IMAD (Mar. 21) | MoF (Apr. 21) | HP filter | based on GDP averages | factor models | Blanchard-Quah | average of all estimates | average of institutions | average of estimates based on prod. funct. | average * |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | -2.4 | 0.5 | -0.5 | 0.1 | -0.6 | -0.7 | -0.4 | ... | 0.1 | -0.5 | -0.6 | 0.0 | -0.4 |
| 2002 | -1.1 | 0.9 | -0.5 | 0.6 | -0.2 | -0.9 | -0.7 | ... | -1.6 | -0.4 | -0.1 | 0.4 | -0.4 |
| 2003 | 0.1 | 0.7 | -0.9 | 0.6 | -0.2 | -1.6 | -1.7 | 2.1 | -2.1 | -0.3 | 0.1 | 0.4 | -0.6 |
| 2004 | -1.4 | 1.8 | 0.1 | 1.7 | 1.1 | -0.9 | -1.4 | 3.5 | -1.1 | 0.4 | 0.7 | 1.5 | 0.3 |
| 2005 | -0.5 | 2.6 | 1.0 | 2.6 | 2.0 | -0.6 | -1.6 | 2.7 | 0.0 | 0.9 | 1.5 | 2.4 | 0.8 |
| 2006 | 2.8 | 4.9 | 3.8 | 5.1 | 4.4 | 1.9 | 0.7 | 4.5 | 2.6 | 3.4 | 4.2 | 4.8 | 3.1 |
| 2007 | 5.3 | 8.2 | 7.7 | 8.6 | 7.9 | 6.4 | 5.4 | 7.4 | 7.1 | 7.1 | 7.6 | 8.3 | 6.7 |
| 2008 | 5.4 | 7.9 | 8.2 | 8.5 | 7.8 | 8.3 | 7.3 | 5.1 | 7.0 | 7.3 | 7.6 | 8.1 | 7.0 |
| 2009 | -3.0 | -2.5 | -2.1 | -1.9 | -2.5 | -0.8 | -1.9 | -4.9 | -2.0 | -2.4 | -2.4 | -2.3 | -2.3 |
| 2010 | -1.0 | -2.4 | -2.3 | -1.9 | -2.5 | 0.1 | -0.7 | -1.2 | -2.9 | -1.7 | -2.0 | -2.3 | -1.9 |
| 2011 | 0.6 | -2.4 | -2.7 | -2.0 | -2.5 | 0.6 | 0.6 | -1.7 | -1.6 | -1.2 | -1.8 | -2.3 | -1.6 |
| 2012 | -2.0 | -5.5 | -6.4 | -5.4 | -5.8 | -2.5 | -2.1 | -4.8 | -3.5 | -4.2 | -5.0 | -5.5 | -4.5 |
| 2013 | -3.0 | -7.0 | -8.5 | -7.1 | -7.5 | -4.3 | -3.8 | -4.7 | -6.8 | -5.8 | -6.6 | -7.2 | -6.2 |
| 2014 | -2.3 | -5.3 | -7.4 | -5.6 | -6.0 | -2.9 | -2.4 | -2.2 | -3.7 | -4.2 | -5.3 | -5.6 | -4.5 |
| 2015 | -1.8 | -4.1 | -7.0 | -4.5 | -4.8 | -2.6 | -2.2 | -1.8 | -2.0 | -3.4 | -4.4 | -4.5 | -3.8 |
| 2016 | -0.2 | -1.9 | -5.8 | -2.4 | -2.6 | -1.7 | -1.6 | -1.0 | 0.2 | -1.9 | -2.6 | -2.3 | -2.5 |
| 2017 | -0.1 | 1.5 | -3.5 | 1.0 | 0.7 | 0.6 | 0.6 | 2.3 | 2.5 | 0.6 | -0.1 | 1.1 | -0.2 |
| 2018 | 0.3 | 3.9 | -1.6 | 3.6 | 3.4 | 2.6 | 2.7 | 2.7 | 5.3 | 2.5 | 1.9 | 3.6 | 1.5 |
| 2019 | 0.6 | 5.2 | -0.9 | 4.7 | 4.5 | 3.6 | 3.4 | 2.2 | 5.0 | 3.2 | 2.8 | 4.8 | 2.0 |
| 2020 | -4.8 | -3.5 | -10.2 | -2.9 | -3.1 | -4.1 | -4.7 | -4.4 | -1.5 | -4.3 | -4.9 | -3.2 | -6.4 |
| 2021 | -2.6 | -0.5 | -8.8 | -0.9 | -1.1 | -1.9 | -2.6 | -0.9 | -2.7 | -2.4 | -2.8 | -0.8 | -4.8 |
| 2022 | -1.0 | 1.0 | -7.3 | 0.7 | 0.6 | -0.1 | -0.6 | -0.9 | -1.6 | -1.0 | -1.2 | 0.8 | -3.1 |
| 2023 | ... | ... | ... | 1.2 | 1.2 | 0.7 | 0.1 | -0.3 | -2.4 | 0.1 | 1.2 | 1.2 | -2.8 |
| 2024 | ... | ... | ... | 1.3 | 1.2 | 1.1 | 0.2 | 1.8 | ... | 1.1 | 1.2 | 1.2 | -1.5 |

*Source: IMAD, EC, IMF, OECD, Stability Programme 2021, FC calculations.* Based on output gap estimated on the basis of potential output growth estimates from autumn 2019 and current GDP forecast .*

Note: The table shows estimates of the output gap by domestic and international institutions that provide these estimates for Slovenia (IMAD, MF, EC, IMF, OECD). In addition, the table also shows estimates of the output gap generated by statistical models in which the potential product is determined by (i) HP filters at different values of the parameter λ (10,100,400), (ii) the 3-, 5- and 7-year average of GDP, (iii) factor models estimated on the basis of survey about limitations in the economy and forecasts of a simple VAR model that includes these factors, as well as factor models that take into account a large number of IMAD and EC macroeconomic variables in its estimates and forecasts; and (iv) the SVAR model based on the Blanchard and Quah methodology (1989), which uses restrictions with regard to the assumption that GDP is affected in the long term only by shocks to the aggregate supply, while demand shocks affect activity levels only in the short term.

**Table 5.3: Structural balance estimates**

| | IMF (Apr. 21) | European Commission (Nov. 20) | OECD (Dec. 20) | IMAD (Mar. 21) | MoF (Apr. 21) | HP filter | based on GDP averages | factor models | Blanchard-Quah | average of all estimates | average of institutions | average of estimates based on prod. funct. | average * |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | -3.3 | -4.7 | -4.2 | -4.5 | -4.2 | -4.1 | -4.3 | ... | -4.5 | -4.2 | -4.2 | -4.5 | -4.3 |
| 2002 | -3.3 | -4.2 | -3.5 | -4.1 | -3.7 | -3.4 | -3.4 | ... | -3.0 | -3.6 | -3.8 | -4.0 | -3.6 |
| 2003 | -2.7 | -2.9 | -2.2 | -2.9 | -2.5 | -1.9 | -1.8 | -3.6 | -1.6 | -2.4 | -2.6 | -2.8 | -2.3 |
| 2004 | -1.0 | -2.5 | -1.7 | -2.4 | -2.2 | -1.3 | -1.0 | -3.3 | -1.2 | -1.8 | -2.0 | -2.4 | -1.8 |
| 2005 | -1.1 | -2.5 | -1.8 | -2.6 | -2.3 | -1.1 | -0.6 | -2.6 | -1.3 | -1.8 | -2.0 | -2.4 | -1.7 |
| 2006 | -2.5 | -3.5 | -3.0 | -3.6 | -3.3 | -2.1 | -1.6 | -3.4 | -2.4 | -2.8 | -3.2 | -3.5 | -2.6 |
| 2007 | -2.5 | -3.9 | -3.7 | -4.1 | -3.8 | -3.0 | -2.6 | -3.5 | -3.4 | -3.4 | -3.6 | -3.9 | -3.1 |
| 2008 | -3.9 | -5.1 | -5.2 | -5.4 | -5.1 | -5.3 | -4.8 | -3.8 | -4.7 | -4.8 | -4.9 | -5.2 | -4.7 |
| 2009 | -4.4 | -4.6 | -4.8 | -4.9 | -4.6 | -5.4 | -4.9 | -3.5 | -4.9 | -4.7 | -4.7 | -4.7 | -4.7 |
| 2010 | -5.0 | -4.3 | -4.4 | -4.6 | -4.3 | -5.5 | -5.2 | -4.9 | -4.1 | -4.7 | -4.5 | -4.4 | -4.6 |
| 2011 | -5.8 | -4.4 | -4.2 | -4.5 | -4.3 | -5.7 | -5.8 | -4.7 | -4.7 | -4.9 | -4.6 | -4.4 | -4.7 |
| 2012 | -3.1 | -1.5 | -1.1 | -1.5 | -1.3 | -2.9 | -3.1 | -1.8 | -2.4 | -2.1 | -1.7 | -1.5 | -1.9 |
| 2013 | -3.3 | -1.3 | -0.7 | -1.3 | -1.1 | -2.7 | -2.9 | -2.4 | -1.5 | -1.9 | -1.6 | -1.3 | -1.8 |
| 2014 | -3.4 | -1.9 | -1.0 | -1.8 | -1.6 | -3.1 | -3.3 | -3.4 | -2.7 | -2.5 | -1.9 | -1.8 | -2.3 |
| 2015 | -1.9 | -0.9 | 0.5 | -0.7 | -0.5 | -1.6 | -1.8 | -1.9 | -1.8 | -1.2 | -0.7 | -0.7 | -1.0 |
| 2016 | -1.7 | -0.9 | 0.9 | -0.7 | -0.6 | -1.1 | -1.1 | -1.4 | -1.9 | -0.9 | -0.6 | -0.7 | -0.6 |
| 2017 | 0.1 | -0.7 | 1.7 | -0.4 | -0.3 | -0.3 | -0.2 | -1.1 | -1.2 | -0.3 | 0.1 | -0.5 | 0.1 |
| 2018 | 0.7 | -1.1 | 1.5 | -0.9 | -0.8 | -0.4 | -0.5 | -0.5 | -1.7 | -0.4 | -0.1 | -0.9 | 0.0 |
| 2019 | 0.2 | -2.0 | 0.9 | -1.7 | -1.6 | -1.2 | -1.1 | -0.6 | -1.9 | -1.0 | -0.8 | -1.8 | -0.5 |
| 2020 | 0.0 | -0.6 | 2.5 | -0.9 | -0.8 | -0.4 | -0.1 | -0.2 | -1.6 | -0.2 | 0.0 | -0.8 | 0.7 |
| 2021 | -4.9 | -5.9 | -2.1 | -5.8 | -5.7 | -5.3 | -4.9 | -5.7 | -4.9 | -5.0 | -4.9 | -5.8 | -3.9 |
| 2022 | -5.1 | -6.0 | -2.2 | -5.9 | -5.8 | -5.5 | -5.3 | -5.1 | -4.8 | -5.1 | -5.0 | -5.9 | -4.1 |
| 2023 | ... | ... | ... | -4.3 | -4.3 | -4.0 | -3.7 | -3.6 | -2.6 | -3.8 | -4.3 | -4.3 | -2.4 |
| 2024 | ... | ... | ... | -3.3 | -3.3 | -3.3 | -2.8 | -3.6 | ... | -3.2 | -3.3 | -3.3 | -2.0 |

*Source: IMAD, EC, IMF, OECD, Stability Programme 2021, FC calculations based on Table 5.2 . * Based on output gap estimated on the basis of potential output growth estimates from autumn 2019 and current GDP forecast.*

**Table 5.4: Structural effort estimates**

| | IMF (Apr. 21) | European Commission (Nov. 20) | OECD (Dec. 20) | IMAD (Mar. 21) | MoF (Apr. 21) | HP filter | based on GDP averages | factor models | Blanchard-Quah | average of all estimates | average of institutions | average of estimates based on prod. funct. | average * |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | -0.2 | -0.7 | -0.5 | -0.7 | -0.7 | -0.6 | -0.5 | ... | -0.1 | -0.5 | -0.6 | -0.7 | -0.7 |
| 2002 | 0.1 | 0.5 | 0.7 | 0.4 | 0.5 | 0.8 | 0.8 | ... | 1.4 | 0.7 | 0.4 | 0.5 | 0.7 |
| 2003 | 0.6 | 1.3 | 1.4 | 1.2 | 1.2 | 1.5 | 1.6 | ... | 1.4 | 1.3 | 1.1 | 1.2 | 1.3 |
| 2004 | 1.6 | 0.4 | 0.4 | 0.4 | 0.3 | 0.6 | 0.8 | 0.3 | 0.5 | 0.6 | 0.6 | 0.4 | 0.5 |
| 2005 | -0.1 | 0.0 | 0.0 | -0.1 | -0.1 | 0.2 | 0.4 | 0.7 | -0.2 | 0.1 | -0.1 | -0.1 | 0.1 |
| 2006 | -1.4 | -1.0 | -1.2 | -1.0 | -1.0 | -1.1 | -1.0 | -0.8 | -1.1 | -1.1 | -1.1 | -1.0 | -1.0 |
| 2007 | 0.0 | -0.4 | -0.7 | -0.5 | -0.5 | -0.9 | -1.0 | -0.2 | -0.9 | -0.6 | -0.4 | -0.4 | -0.5 |
| 2008 | -1.4 | -1.2 | -1.6 | -1.3 | -1.3 | -2.2 | -2.2 | -0.3 | -1.3 | -1.4 | -1.4 | -1.3 | -1.5 |
| 2009 | -0.5 | 0.5 | 0.4 | 0.5 | 0.4 | -0.2 | -0.1 | 0.3 | -0.2 | 0.1 | 0.3 | 0.4 | -0.1 |
| 2010 | -0.6 | 0.3 | 0.4 | 0.3 | 0.3 | -0.1 | -0.2 | -1.4 | 0.7 | 0.0 | 0.2 | 0.3 | 0.1 |
| 2011 | -0.8 | 0.0 | 0.2 | 0.1 | 0.0 | -0.2 | -0.6 | 0.3 | -0.6 | -0.2 | -0.1 | 0.0 | -0.1 |
| 2012 | 2.6 | 2.9 | 3.1 | 3.0 | 2.9 | 2.9 | 2.7 | 2.8 | 2.3 | 2.8 | 2.9 | 2.9 | 2.8 |
| 2013 | -0.1 | 0.2 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 | -0.6 | 0.9 | 0.2 | 0.2 | 0.2 | 0.2 |
| 2014 | -0.1 | -0.6 | -0.3 | -0.5 | -0.5 | -0.4 | -0.5 | -1.0 | -1.2 | -0.6 | -0.4 | -0.5 | -0.5 |
| 2015 | 1.5 | 1.1 | 1.5 | 1.1 | 1.1 | 1.5 | 1.6 | 1.5 | 0.9 | 1.3 | 1.2 | 1.1 | 1.4 |
| 2016 | 0.2 | -0.1 | 0.4 | 0.0 | -0.1 | 0.5 | 0.7 | 0.5 | -0.1 | 0.2 | 0.1 | -0.1 | 0.3 |
| 2017 | 1.8 | 0.3 | 0.8 | 0.3 | 0.3 | 0.8 | 0.8 | 0.3 | 0.8 | 0.7 | 0.7 | 0.3 | 0.7 |
| 2018 | 0.6 | -0.4 | -0.1 | -0.5 | -0.5 | -0.2 | -0.3 | 0.6 | -0.5 | -0.1 | -0.2 | -0.4 | -0.1 |
| 2019 | -0.5 | -0.9 | -0.6 | -0.8 | -0.8 | -0.8 | -0.6 | -0.1 | -0.2 | -0.6 | -0.7 | -0.9 | -0.5 |
| 2020 | -0.2 | 1.3 | 1.6 | 0.8 | 0.8 | 0.9 | 1.0 | 0.3 | 0.3 | 0.8 | 0.9 | 1.0 | 1.2 |
| 2021 | -4.9 | -5.3 | -4.5 | -4.8 | -4.8 | -4.9 | -4.9 | -5.5 | -3.3 | -4.8 | -4.9 | -5.0 | -4.6 |
| 2022 | -0.2 | -0.1 | -0.1 | -0.2 | -0.2 | -0.3 | -0.4 | 0.6 | 0.1 | -0.1 | -0.2 | -0.2 | -0.2 |
| 2023 | ... | ... | ... | 1.6 | 1.6 | 1.5 | 1.6 | 1.6 | 2.2 | 1.7 | 1.6 | 1.6 | 1.7 |
| 2024 | ... | ... | ... | 1.0 | 1.0 | 0.8 | 0.9 | 0.0 | ... | 0.7 | 1.0 | 1.0 | 0.4 |

*Source: IMAD, EC, IMF, OECD, Stability Programme 2021, FC calculations based on Table 5.2 .* Based on output gap estimated on the basis of potential output growth estimates from autumn 2019 and current GDP forecast.*

**Table 5.5: Structural primary balance estimates**

| | IMF (Apr. 21) | European Commission (Nov. 20) | OECD (Dec. 20) | IMAD (Mar. 21) | MoF (Apr. 21) | HP filter | based on GDP averages | factor models | Blanchard-Quah | average of all estimates | average of institutions | average of estimates based on prod. funct. | average * |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | -1.0 | -2.4 | -1.9 | -2.2 | -1.9 | -1.8 | -2.0 | ... | -2.17 | -1.9 | -1.9 | -2.1 | -2.0 |
| 2002 | -1.1 | -2.0 | -1.4 | -1.9 | -1.5 | -1.2 | -1.3 | ... | -0.88 | -1.4 | -1.6 | -1.8 | -1.4 |
| 2003 | -0.7 | -1.0 | -0.2 | -0.9 | -0.6 | 0.1 | 0.1 | -1.6 | 0.3 | -0.5 | -0.7 | -0.8 | -0.4 |
| 2004 | 0.6 | -0.9 | -0.1 | -0.8 | -0.5 | 0.4 | 0.7 | -1.6 | 0.5 | -0.2 | -0.3 | -0.7 | -0.2 |
| 2005 | 0.4 | -1.0 | -0.2 | -1.0 | -0.7 | 0.5 | 1.0 | -1.1 | 0.2 | -0.2 | -0.5 | -0.9 | -0.1 |
| 2006 | -1.2 | -2.1 | -1.6 | -2.2 | -1.9 | -0.8 | -0.2 | -2.0 | -1.1 | -1.5 | -1.8 | -2.1 | -1.3 |
| 2007 | -1.3 | -2.7 | -2.4 | -2.8 | -2.5 | -1.8 | -1.3 | -2.3 | -2.1 | -2.1 | -2.3 | -2.7 | -1.9 |
| 2008 | -2.8 | -4.0 | -4.1 | -4.3 | -4.0 | -4.2 | -3.7 | -2.7 | -3.6 | -3.7 | -3.8 | -4.1 | -3.6 |
| 2009 | -3.1 | -3.3 | -3.5 | -3.6 | -3.3 | -4.1 | -3.6 | -2.2 | -3.5 | -3.4 | -3.4 | -3.4 | -3.4 |
| 2010 | -3.4 | -2.7 | -2.8 | -3.0 | -2.7 | -3.9 | -3.5 | -3.3 | -2.5 | -3.1 | -2.9 | -2.8 | -3.0 |
| 2011 | -3.9 | -2.5 | -2.3 | -2.6 | -2.4 | -3.9 | -3.9 | -2.8 | -2.9 | -3.0 | -2.7 | -2.5 | -2.8 |
| 2012 | -1.1 | 0.5 | 0.9 | 0.5 | 0.7 | -0.9 | -1.0 | 0.2 | -0.4 | -0.1 | 0.3 | 0.6 | 0.1 |
| 2013 | -0.7 | 1.2 | 1.9 | 1.2 | 1.4 | -0.1 | -0.3 | 0.1 | 1.1 | 0.6 | 1.0 | 1.3 | 0.8 |
| 2014 | -0.1 | 1.3 | 2.3 | 1.4 | 1.6 | 0.2 | -0.1 | -0.2 | 0.5 | 0.8 | 1.3 | 1.4 | 0.9 |
| 2015 | 1.3 | 2.4 | 3.7 | 2.5 | 2.7 | 1.6 | 1.5 | 1.3 | 1.4 | 2.0 | 2.5 | 2.5 | 2.2 |
| 2016 | 1.3 | 2.1 | 3.9 | 2.3 | 2.4 | 2.0 | 2.0 | 1.7 | 1.1 | 2.1 | 2.4 | 2.3 | 2.4 |
| 2017 | 2.6 | 1.9 | 4.2 | 2.1 | 2.2 | 2.3 | 2.3 | 1.5 | 1.4 | 2.2 | 2.6 | 2.0 | 2.6 |
| 2018 | 2.7 | 1.0 | 3.5 | 1.1 | 1.2 | 1.6 | 1.5 | 1.5 | 0.3 | 1.6 | 1.9 | 1.1 | 2.1 |
| 2019 | 1.9 | -0.3 | 2.6 | 0.0 | 0.1 | 0.5 | 0.6 | 1.2 | -0.2 | 0.7 | 0.9 | -0.1 | 1.2 |
| 2020 | 1.6 | 1.0 | 4.1 | 0.7 | 0.8 | 1.3 | 1.5 | 1.4 | 0.1 | 1.4 | 1.6 | 0.8 | 2.3 |
| 2021 | -3.4 | -4.4 | -0.5 | -4.2 | -4.1 | -3.7 | -3.4 | -4.2 | -3.4 | -3.5 | -3.3 | -4.3 | -2.4 |
| 2022 | -3.8 | -4.7 | -0.8 | -4.6 | -4.5 | -4.2 | -4.0 | -3.8 | -3.5 | -3.8 | -3.7 | -4.6 | -2.8 |
| 2023 | ... | ... | ... | -3.1 | -3.0 | -2.8 | -2.5 | -2.4 | -1.4 | -2.5 | -3.1 | -3.1 | -1.2 |
| 2024 | ... | ... | ... | -2.1 | -2.1 | -2.1 | -1.6 | -2.4 | ... | -2.1 | -2.1 | -2.1 | -0.9 |

*Source: IMAD, EC, IMF, OECD, Stability Programme 2021, FC calculations based on Table 5.2 .* Based on output gap estimated on the basis of potential output growth estimates from autumn 2019 and current GDP forecast.*

**Table 5.6: Structural primary effort estimates**

| | IMF (Apr. 21) | European Commission (Nov. 20) | OECD (Dec. 20) | IMAD (Mar. 21) | MoF (Apr. 21) | HP filter | based on GDP averages | factor models | Blanchard-Quah | average of all estimates | average of institutions | average of estimates based on prod. funct. | average * |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2001 | -0.3 | -0.8 | -0.5 | -0.7 | -0.8 | -0.6 | -0.6 | ... | -0.2 | -0.6 | -0.6 | -0.8 | -0.6 |
| 2002 | -0.1 | 0.3 | 0.6 | 0.3 | 0.3 | 0.6 | 0.7 | ... | 1.3 | 0.5 | 0.3 | 0.3 | 0.5 |
| 2003 | 0.4 | 1.0 | 1.1 | 1.0 | 1.0 | 1.3 | 1.4 | ... | 1.2 | 1.0 | 0.9 | 1.0 | 1.0 |
| 2004 | 1.4 | 0.1 | 0.2 | 0.1 | 0.1 | 0.3 | 0.5 | 0.0 | 0.2 | 0.3 | 0.4 | 0.1 | 0.2 |
| 2005 | -0.2 | -0.1 | -0.2 | -0.2 | -0.2 | 0.1 | 0.3 | 0.6 | -0.3 | 0.0 | -0.2 | -0.2 | 0.0 |
| 2006 | -1.6 | -1.1 | -1.4 | -1.2 | -1.2 | -1.2 | -1.2 | -0.9 | -1.3 | -1.2 | -1.3 | -1.2 | -1.1 |
| 2007 | -0.1 | -0.5 | -0.8 | -0.6 | -0.6 | -1.0 | -1.1 | -0.3 | -1.1 | -0.7 | -0.5 | -0.6 | -0.6 |
| 2008 | -1.6 | -1.3 | -1.7 | -1.4 | -1.5 | -2.4 | -2.4 | -0.4 | -1.4 | -1.6 | -1.5 | -1.4 | -1.6 |
| 2009 | -0.3 | 0.7 | 0.6 | 0.7 | 0.6 | 0.0 | 0.1 | 0.5 | 0.0 | 0.3 | 0.5 | 0.7 | 0.1 |
| 2010 | -0.3 | 0.6 | 0.7 | 0.7 | 0.6 | 0.3 | 0.1 | -1.1 | 1.1 | 0.3 | 0.5 | 0.6 | 0.5 |
| 2011 | -0.5 | 0.2 | 0.4 | 0.3 | 0.3 | 0.0 | -0.4 | 0.5 | -0.4 | 0.1 | 0.2 | 0.3 | 0.1 |
| 2012 | 2.7 | 3.0 | 3.3 | 3.1 | 3.1 | 3.0 | 2.8 | 3.0 | 2.4 | 2.9 | 3.0 | 3.1 | 2.9 |
| 2013 | 0.4 | 0.7 | 0.9 | 0.7 | 0.8 | 0.8 | 0.7 | -0.1 | 1.5 | 0.7 | 0.7 | 0.7 | 0.7 |
| 2014 | 0.6 | 0.1 | 0.4 | 0.2 | 0.2 | 0.3 | 0.2 | -0.3 | -0.5 | 0.1 | 0.3 | 0.2 | 0.1 |
| 2015 | 1.4 | 1.1 | 1.4 | 1.1 | 1.1 | 1.5 | 1.5 | 1.5 | 0.9 | 1.3 | 1.2 | 1.1 | 1.3 |
| 2016 | 0.0 | -0.3 | 0.2 | -0.2 | -0.3 | 0.3 | 0.5 | 0.4 | -0.3 | 0.1 | -0.1 | -0.2 | 0.2 |
| 2017 | 1.3 | -0.2 | 0.2 | -0.3 | -0.2 | 0.3 | 0.3 | -0.2 | 0.3 | 0.2 | 0.1 | -0.3 | 0.2 |
| 2018 | 0.1 | -0.9 | -0.6 | -1.0 | -1.0 | -0.7 | -0.8 | 0.1 | -1.1 | -0.6 | -0.7 | -1.0 | -0.6 |
| 2019 | -0.8 | -1.2 | -0.9 | -1.1 | -1.1 | -1.1 | -0.9 | -0.4 | -0.5 | -0.9 | -1.0 | -1.2 | -0.8 |
| 2020 | -0.3 | 1.3 | 1.5 | 0.7 | 0.7 | 0.8 | 1.0 | 0.3 | 0.2 | 0.7 | 0.8 | 0.9 | 1.1 |
| 2021 | -5.0 | -5.4 | -4.6 | -4.9 | -4.9 | -5.0 | -5.0 | -5.6 | -3.4 | -4.9 | -5.0 | -5.1 | -4.7 |
| 2022 | -0.4 | -0.3 | -0.3 | -0.4 | -0.4 | -0.5 | -0.6 | 0.4 | -0.1 | -0.3 | -0.3 | -0.3 | -0.4 |
| 2023 | ... | ... | ... | 1.5 | 1.5 | 1.4 | 1.4 | 1.4 | 2.1 | 1.6 | 1.5 | 1.5 | 1.6 |
| 2024 | ... | ... | ... | 0.9 | 0.9 | 0.7 | 0.9 | 0.0 | ... | 0.7 | 0.9 | 0.9 | 0.4 |

*Source: IMAD, EC, IMF, OECD, Stability Programme 2021, FC calculations based on Table 5.2 .* Based on output gap estimated on the basis of potential output growth estimates from autumn 2019 and current GDP forecast.*

**Table 5.7: Maximum general government expenditure and deviation from the frameworks**

| | IMF (Apr.21) | | EC (Nov. 20) | | OECD (Dec.20) | | IMAD (Mar.21) | | MoF (apr.21) | | HP (Apr.21) | | based on GDP averages (Apr. 21) | | Factor (Apr. 21) | | Blanchard-Quah (Apr. 21) | | average | | average of institutions | | average of estimates based on production function | | average output gap based on estimates of potential output from autumn 2019 | | **Framework** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | *max E* | *diff.* | |
| **initial year 2020** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2021 | 23,997 | *-1,303* | 23,793 | *-1,507* | 24,172 | *-1,128* | 24,027 | *-1,273* | 24,023 | *-1,277* | 23,986 | *-1,314* | 24,016 | *-1,284* | 23,695 | *-1,605* | 24,750 | *-550* | 24,051 | *-1,249* | 24,002 | *-1,298* | 23,948 | *-1,352* | 24,119 | *-1,181* | **25,300** |
| 2022 | 22,474 | *-2,571* | 22,524 | *-2,521* | 22,525 | *-2,520* | 22,488 | *-2,557* | 22,476 | *-2,569* | 22,430 | *-2,615* | 22,384 | *-2,661* | 22,876 | *-2,169* | 22,617 | *-2,428* | 22,533 | *-2,512* | 22,497 | *-2,548* | 22,496 | *-2,549* | 22,472 | *-2,573* | **25,045** |
| 2023 | | | | | | | 22,918 | *-2,127* | 22,897 | *-2,148* | 22,854 | *-2,191* | 22,887 | *-2,158* | 22,883 | *-2,162* | 23,248 | *-1,797* | 22,948 | *-2,097* | 22,908 | *-2,137* | 22,908 | *-2,137* | 22,963 | *-2,082* | **25,045** |
| 2024 | | | | | | | 23,618 | *-1,812* | 23,616 | *-1,814* | 23,509 | *-1,921* | 23,592 | *-1,838* | 23,079 | *-2,351* | | | 23,483 | *-1,947* | 23,617 | *-1,813* | 23,617 | *-1,813* | 23,292 | *-2,138* | **25,430** |
| **initial year 2022** | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2023 | | | | | | | 25,522 | *477* | 25,501 | *456* | 25,458 | *413* | 25,490 | *445* | 25,487 | *442* | 25,851 | *806* | 25,551 | *506* | 25,511 | *466* | 25,511 | *466* | 25,567 | *522* | **25,045** |
| 2024 | | | | | | | 26,128 | *698* | 26,126 | *696* | 26,019 | *589* | 26,102 | *672* | 25,589 | *159* | | | 25,993 | *563* | 26,127 | *697* | 26,127 | *697* | 25,802 | *372* | **25,430** |

*Source: IMAD, EC, IMF, OECD, Stability Programme 2021, FC calculations based on Table 5.2 .*

**Literature:**


Badia, M.M., Medas, P., Gupta, P. and Y. Xiang (2020). Debt Is Not Free. IMF Working Paper. WP 20/1. January. International Monetary Fund. Washington D.C. Available at: https://www.imf.org/en/Publications/WP/Issues/2020/01/03/Debt-Is-Not-Free-48894

Blanchard, O. (2019). Public Debt and Low Interest Rates. American Economic Review 109 (4). pp. 1197-1229.

ECB (2020). The impact of the recent spike in uncertainty on economic activity in the euro area. Economic Bulletin. Issue 6/2020. June. European Central Bank. Frankfurt. Available at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202006_04~e36366efeb.en.html

EU IFI (2021). The role of the Independent Fiscal Institutions in assessing the high public debt in the post -Covid era. February. The Network of EU Independent Fiscal Institutions. Available at: https://www.euifis.eu/images/Network%20of%20EU%20IFIs%20-%20The%20Role%20of%20IFIs%20in%20assessing%20sustainability%20of%20high%20public%20debt%20post-Covid(1).pdf

European Commission (2009). Impact of the current economic and financial crisis on potential output. European Economy Occasional Papers 49. June. European Commission. Brussels. Available at: https://ec.europa.eu/economy_finance/publications/pages/publication15479_en.pdf

European Commission (2015). Report on Public Finances in EMU 2015. Institutional Paper 014. December. European Commission. Brussels. Available at: https://ec.europa.eu/info/sites/info/files/file_import/ip014_en_2.pdf

European Commission (2018). The 2018 Ageing Report: Economic and Budgetary projections for the EU Member States (2016-2070). Institutional Paper 079. May. European Commission. Brussels. Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip079_en.pdf

European Commission (2019). Vade Mecum on the Stability & Growth Pact. 2019 Edition. Institutional Paper 101. April. European Commission. Brussels. Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip101_en.pdf

European Commission(2020a). European Economic Forecasts Autumn 2020. Institutional Paper 136. November. European Commission. Brussels. Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en_2.pdf

European Commission (2020b). Identifying Europe's recovery needs. Commission Staff Working Paper. SWD (2020) 98 final/2. May. European Commission. Brussels. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098&from=EN

European Commission (2020c). Communication from the Commission to the European Parliament, the Council and the European Central Bank on the 2021 Draft Budgetary Plans: Overall Assessment. COM (2020) 750 final. November. European Commission. Brussels. Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/dbps_overall_assessment.pdf

European Commission (2021). One year since the outbreak of COVID-19: fiscal policy response. Communication from Commission to the Council. March. European Commission. Brussels. Available at: https://ec.europa.eu/info/sites/info/files/economy-finance/1_en_act_part1_v9.pdf

Fiscal Council (2018a). Report on the Fiscal Council's operations in 2017. May. Available at: http://www.fs-rs.si/wp-content/uploads/2018/05/Report-on-the-FC-operations-in-2017.pdf

Fiscal Council (2018b). Assessment of the compliance of the fiscal policy with the fiscal rules based on the draft Stability Programme – 2018 amendment. April. Available at: https://www.fs-rs.si/wp-content/uploads/2018/06/Assessment_SP2018.pdf

Fiscal Council (2020a). Assessment of compliance of the general government budgets with the fiscal rules in 2019. June. Available at: https://www.fs-rs.si/wp-content/uploads/2020/06/Assessment.pdf

Fiscal Council (2020b). An ex post evaluation of forecasts of macroeconomic and fiscal aggregates in the reference period 2016 – 2019. August. Available at: https://www.fs-rs.si/wp-content/uploads/2020/08/Ex_post_evaluation_August_2020.pdf

Fiscal Council (2020c). Assessment of budgetary documents for 2021 and 2022. October. Available at: https://www.fs-rs.si/wp-content/uploads/2020/10/Assessment.pdf

Fiscal Council (2020d). Introduction of conditions enabling the application of exceptional circumstances under the Fiscal Rule Act. March. Available at: https://www.fs-rs.si/wp-content/uploads/2020/03/Assessment_extraordinary-event-under-the-Fiscal-Rule-Act-_March-2020.pdf

Fiscal Council(2021a). Public investment in Slovenia: trends, structure and challenges. April. Available at: https://www.fs-rs.si/wp-content/uploads/2021/04/Public-investment-in-Slovenia_April2021_ang.pdf

Fiscal Council(2021b). Slovenia's general government debt: characteristics, medium-term sustainability and long-term simulations. March. Available at: https://www.fs-rs.si/wp-content/uploads/2021/03/2021_1_Debt.pdf

Fiscal Council(2021c). Fulfilment of conditions for the existence of exceptional circumstances in 2022. April. Available at: https://www.fs-rs.si/wp-content/uploads/2021/04/Exceptional_circumstances-_april2021_en.pdf

IMF (2020). Infrastructure in Central, Eastern, and Southeastern Europe: Benchmarking, Macroeconomic Impact, and Policy Issues. September. International Monetary Fund. Washington D.C. Available at: https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2020/09/25/Infrastructure-in-Central-Eastern-and-Southeastern-Europe-Benchmarking-Macroeconomic-Impact-49580

IMF (2021a). World Economic Outlook. April. International Monetary Fund. Washington D.C. Available at: https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021

IMF (2021b). Fiscal Monitor. April. International Monetary Fund. Washington D.C. Available at: https://www.imf.org/en/Publications/FM/Issues/2021/03/29/fiscal-monitor-april-2021

IMF (2021c). Review of the Debt Sustainability Framework for Market Access Countries. IMF Policy Paper. January. International Monetary Fund. Washington D.C. Available at: https://www.imf.org/en/Publications/Policy-Papers/Issues/2021/02/03/Review-of-The-Debt-Sustainability-Framework-For-Market-Access-Countries-50060

Isham. J. and D. Kaufmann (1999). The Forgotten Rationale for Policy Reform: The Productivity of Investment Projects. February. The Quarterly Journal of Economics, Volume 114, Issue 1.

Lian, W., Presbitero, A. and U. Wiriadinata (2020). Public debt and r-g at risk. IMF Working Paper. WP 20/137. July. International Monetary Fund. Washington D.C. Available at: https://www.imf.org/en/Publications/WP/Issues/2020/07/24/Public-Debt-and-r-g-at-Risk-49586

Mauro, P. and J. Zhou (2020). r-g<0: Can We Sleep More Soundly? IMF Working Paper. WP 20/52. March. International Monetary Fund. Washington D.C. Available at: https://www.imf.org/en/Publications/WP/Issues/2020/03/13/r-minus-g-negative-Can-We-Sleep-More-Soundly-49068

Presbitero, A. (2016). Too much and too fast? Public investment scaling-up and absorptive capacity. May. Journal of Development Economics, Volume 120.

IMAD (2021). Spring Forecast of Economic Trends 2021. March. Institute of Macroeconomic Analysis and Development. Available at: https://www.umar.gov.si/fileadmin/user_upload/napovedi/pomlad/pomladanska_2021/angleska/Spring_Forecast_of_Economic_Trends_2021_01.pdf